

# About Doing Business

In 1664 William Petty, an adviser to England's Charles II, compiled the first known national accounts. He made 4 entries. On the expense side, "food, housing, clothes and all other necessities" were estimated at £40 million. National income was split among 3 sources: £8 million from land, £7 million from other personal estates and £25 million from labor income.

In later centuries estimates of country income, expenditure and material inputs and outputs became more abundant. But it was not until the 1940s that a systematic framework was developed for measuring national income and expenditure, under the direction of British economist John Maynard Keynes. As the methodology became an international standard, comparisons of countries' financial positions became possible. Today the macroeconomic indicators in national accounts are standard in every country.

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

Until very recently, however, there were no globally available indicator sets for monitoring these microeconomic factors and analyzing their relevance. The first efforts, in the 1980s, drew on perceptions data from expert or business

surveys. Such surveys are useful gauges of economic and policy conditions. But their reliance on perceptions and their incomplete coverage of poor countries limit their usefulness for analysis.

The *Doing Business* project, launched 7 years ago, goes one step further. It looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. *Doing Business* and the standard cost model initially developed and applied in the Netherlands are, for the present, the only standard tools used across a broad range of jurisdictions to measure the impact of government rule-making on business activity.<sup>1</sup>

The first *Doing Business* report, published in 2003, covered 5 indicator sets in 133 economies. This year's report covers 10 indicator sets in 181 economies. The project has benefited from feedback from governments, academics, practitioners and reviewers.<sup>2</sup> The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business.

## WHAT DOING BUSINESS COVERS

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

A fundamental premise of *Doing Business* is that economic activity requires good rules. These include rules that establish and clarify property rights and reduce the costs of resolving disputes, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse. The objective: regulations designed to be efficient, to be accessible to all who need to use them and to be simple in their implementation. Accordingly, some *Doing Business* indicators give a higher score for more

regulation, such as stricter disclosure requirements in related-party transactions. Some give a higher score for a simplified way of implementing existing regulation, such as completing business start-up formalities in a one-stop shop.

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

## WHAT DOING BUSINESS DOES NOT COVER

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

### LIMITED IN SCOPE

*Doing Business* focuses on 10 topics, with the specific aim of measuring the regulation and red tape relevant to the life cycle of a domestic small to medium-size firm. Accordingly:

- *Doing Business* does not measure all aspects of the business environment that matter to firms or investors—or all factors that affect competitiveness. It does not, for example, measure security, macroeconomic stability, corruption, the labor skills of the population, the underlying strength of institutions or the quality of infrastructure.<sup>4</sup> Nor does it focus on regulations specific to foreign investment.

- *Doing Business* does not cover all regulations, or all regulatory goals, in any economy. As economies and technology advance, more areas of economic activity are being regulated. For example, the European Union's body of laws (*acquis*) has now grown to no fewer than 14,500 rule sets. *Doing Business* measures regulation affecting just 10 phases of a company's life cycle, through 10 specific sets of indicators.

### BASED ON STANDARDIZED CASE SCENARIOS

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

Such assumptions allow global coverage and enhance comparability. But they come at the expense of generality. Business regulation and its enforcement differ across an economy, particularly in federal states and large economies. And of course the challenges and opportunities of the largest business city—whether Mumbai or São Paulo, Nuku'alofa or Nassau—vary greatly across economies. Recognizing governments' interest in such variation, *Doing Business* has complemented its global indicators with subnational studies in such economies as Brazil, China, Mexico, Nigeria, the Philippines and the Russian Federation.<sup>5</sup> *Doing Business* has also begun a work program focusing on small island states.<sup>6</sup>

In areas where regulation is complex and highly differentiated, the standardized case used to construct the *Doing Business* indicator needs to be carefully defined. Where relevant, the standardized case assumes a limited liability company. This choice is in part empirical: private, limited liability companies are the most prevalent business form in most economies around the world. The choice also reflects one focus of *Doing*

*Business*: expanding opportunities for entrepreneurship. Investors are encouraged to venture into business when potential losses are limited to their capital participation.

### FOCUSED ON THE FORMAL SECTOR

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

Where regulation is particularly onerous, levels of informality are higher. Informality comes at a cost: firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and their workers remain outside the protections of labor law.<sup>7</sup> *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.<sup>8</sup>

### WHY THIS FOCUS

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

One way to test whether *Doing Business* serves as a proxy for the broader business environment and for competitiveness is to look at correlations between the *Doing Business* rankings and

other major economic benchmarks. The indicator set closest to *Doing Business* in what it measures is the Organisation for Economic Co-operation and Development's indicators of product market regulation; the correlation here is 0.80. The World Economic Forum's Global Competitiveness Index and IMD's *World Competitiveness Yearbook* are broader in scope, but these too are strongly correlated with *Doing Business* (0.80 and 0.76, respectively). These correlations suggest that where peace and macroeconomic stability are present, domestic business regulation makes an important difference in economic competitiveness.

A bigger question is whether the issues on which *Doing Business* focuses matter for development and poverty reduction. The World Bank study *Voices of the Poor* asked 60,000 poor people around the world how they thought they might escape poverty.<sup>9</sup> The answers were unequivocal: women and men alike pin their hopes on income from their own business or wages earned in employment. Enabling growth—and ensuring that poor people can participate in its benefits—requires an environment where new entrants with drive and good ideas, regardless of their gender or ethnic origin, can get started in business and where firms can invest and grow, generating more jobs.

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

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

In this sense *Doing Business* values

good rules as a key to social inclusion. It also provides a basis for studying effects of regulations and their application. For example, *Doing Business 2004* found that faster contract enforcement was associated with perceptions of greater judicial fairness—suggesting that justice delayed is justice denied.<sup>10</sup> Other examples are provided in the chapters that follow.

## DOING BUSINESS AS A BENCHMARKING EXERCISE

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

*Doing Business* provides 2 takes on the data it collects: it presents “absolute” indicators for each economy for each of the 10 regulatory topics it addresses, and it provides rankings of economies, both by indicator and in aggregate. Judgment is required in interpreting these measures for any economy and in determining a sensible and politically feasible path for reform.

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

Still, a higher ranking in *Doing Business* tends to be associated with better outcomes over time. Economies that rank among the top 20 are those with high per capita income and productivity and highly developed regulatory systems.

But for reform-minded governments, how much their indicators improve matters more than their absolute ranking. As economies develop, they strengthen and add to regulations to protect investor and property rights. Meanwhile, they find more efficient ways to implement existing regulations and

cut outdated ones. One finding of *Doing Business*: dynamic and growing economies continually reform and update their regulations and their way of implementing them, while many poor economies still work with regulatory systems dating to the late 1800s.

## DOING BUSINESS— A USER'S GUIDE

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

Six years of *Doing Business* data have enabled a growing body of research on how performance on *Doing Business* indicators—and reforms relevant to those indicators—relate to desired social and economic outcomes. Some 325 articles have been published in peer-reviewed academic journals, and about 742 working papers are available through Google Scholar.<sup>11</sup> Among the findings:

- Lower barriers to start-up are associated with a smaller informal sector.<sup>12</sup>
- Lower costs of entry can encourage entrepreneurship and reduce corruption.<sup>13</sup>
- Simpler start-up can translate into greater employment opportunities.<sup>14</sup>

How do governments use *Doing Business*? A common first reaction is to doubt the quality and relevance of the *Doing Business* data. Yet the debate typically proceeds to a deeper discussion exploring the relevance of the data to the economy and areas where reform might make sense.

Most reformers start out by seeking examples, and *Doing Business* helps in this. For example, Saudi Arabia used the company law of France as a model for re-

vising its own. Many economies in Africa look to Mauritius—the region’s strongest performer on *Doing Business* indicators—as a source of good practices for reform. In the words of Dr. Mahmoud Mohieldin, Egypt’s minister of investment:

*What I like about Doing Business... is that it creates a forum for exchanging knowledge. It's no exaggeration when I say I checked the top 10 in every indicator and we just asked them, "What did you do?" If there is any advantage to starting late in anything, it's that you can learn from others.*

Over the past 6 years there has been much activity by governments in reforming the regulatory environment for domestic businesses. Most reforms relating to *Doing Business* topics were nested in broader programs of reform aimed at enhancing economic competitiveness. In structuring their reform programs, governments use multiple data sources and indicators. And reformers respond to many stakeholders and interest groups, all of whom bring important issues and concerns into the reform debate.

World Bank Group support to these reform processes is designed to encourage critical use of the data, sharpening judgment and avoiding a narrow focus on improving *Doing Business* rankings.

## METHODOLOGY AND DATA

*Doing Business* covers 181 economies—including small economies and some of the poorest ones, for which little or no data are available in other data sets. The *Doing Business* data are based on domestic laws and regulations as well as administrative requirements. (For a detailed explanation of the *Doing Business* methodology, see Data notes.)

## INFORMATION SOURCES FOR THE DATA

Most of the indicators are based on laws and regulations. In addition, most of the cost indicators are backed by official fee schedules. *Doing Business* contributors both fill out written surveys and provide

references to the relevant laws, regulations and fee schedules, aiding data checking and quality assurance.

For some indicators part of the cost component (where fee schedules are lacking) and the time component are based on actual practice rather than the law on the books. This introduces a degree of subjectivity. The *Doing Business* approach has therefore been to work with legal practitioners or professionals who regularly undertake the transactions involved. Following the standard methodological approach for time and motion studies, *Doing Business* breaks down each process or transaction, such as starting and legally operating a business, into separate steps to ensure a better estimate of time. The time estimate for each step is given by practitioners with significant and routine experience in the transaction.

Over the past 6 years more than 10,000 professionals in 181 economies have assisted in providing the data that inform the *Doing Business* indicators. This year's report draws on the inputs of more than 6,700 professionals. The *Doing Business* website indicates the number of respondents per economy and per indicator (see table 12.1 in Data notes for the number of respondents per indicator set). Because of the focus on legal and regulatory arrangements, most of the respondents are lawyers. The credit information survey is answered by officials of the credit registry or bureau. Freight forwarders, accountants, architects and other professionals answer the surveys related to trading across borders, taxes and construction permits.

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

## DEVELOPMENT OF THE METHODOLOGY

The methodology for calculating each indicator is transparent, objective and easily replicable. Leading academics collaborate in the development of the indicators, ensuring academic rigor. Six of the background papers underlying the indicators have been published in leading economic journals. Another 2 are at an advanced stage of publication in such journals.

*Doing Business* uses a simple averaging approach for weighting subindicators and calculating rankings. Other approaches were explored, including using principal components and unobserved components.<sup>15</sup> The principal components and unobserved components approaches turn out to yield results nearly identical to those of simple averaging. The tests show that each set of indicators provides new information. The simple averaging approach is therefore robust to such tests.

## IMPROVEMENTS TO THE METHODOLOGY AND DATA REVISIONS

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

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

This year's report includes one change in the core methodology, to the strength of legal rights index, which is part of the getting credit indicator set.

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

Information on data corrections is provided on the website (also see Data notes). 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. The standard cost model is a quantitative methodology for determining the administrative burdens that regulation imposes on businesses. The method can be used to measure the effect of a single law or of selected areas of legislation or to perform a baseline measurement of all legislation in a country.
2. In the past year this has included a review by the World Bank Group Independent Evaluation Group (2008).
3. De Soto (2000).
4. The indicators related to trading across borders and dealing with construction permits take into account limited aspects of an economy's infrastructure, including the inland transport of goods and utility connections for businesses.
5. <http://www.doingbusiness.org/subnational>.
6. <http://www.doingbusiness.org>.
7. Schneider (2005).
8. <http://www.enterprisesurveys.org>.
9. Narayan and others (2000).
10. World Bank (2003).
11. <http://scholar.google.com>.
12. For example, Masatlioglu and Rigolini (2008), Kaplan, Piedra and Seira (2008) and Djankov, Ganser, McLiesh, Ramalho and Shleifer (2008).

13. For example, Alesina and others (2005), Perotti and Volpin (2004), Klapper, Laeven and Rajan (2006), Fisman and Sarria-Allende (2004), Antunes and Cavalcanti (2007), Barseghyan (2008) and Djankov, Ganser, McLiesh, Ramalho and Shleifer (2008).
14. For example, Freund and Bolaky (forthcoming), Chang, Kaltani and Loayza (forthcoming) and Helpman, Melitz and Rubinstein (2008).
15. See Djankov and others (2005).