Doing Business 2015

Going Beyond Efficiency

Overview

Great ideas for new business ventures happen every day and everywhere. Some go far, while others never take off. Great ideas are at the heart of development; they allow economies to grow, and they improve people's lives. So it is important to understand why some great ideas never come to fruition even as others thrive.

What do entrepreneurs need to pursue a great idea? First of all, they need the ability to give legal form to the idea—that is, to start a business—simply, quickly and inexpensively and with the certainty of limited liability. They also need the certainty of a well-designed insolvency system, in case the idea fails to work out. In addition, they will need to hire people to help realize the idea, will probably need to obtain financing (both equity and credit) and, in today's increasingly interdependent global economy, may in many cases need a simple way to import and export. And they will need a straightforward way to pay their taxes.

Sound business regulations are fundamental to all this. The right business regulations enable good ideas to take root, leading to the creation of jobs and to better lives. But where business regulations make it difficult to start and operate a business, good ideas may never see the light of day and important opportunities may be missed. Budding entrepreneurs, daunted by burdensome regulations, may opt out of doing business altogether or, if they have the resources, take their ideas elsewhere.

Doing Business looks at how business regulations determine whether good ideas can get started and thrive or will falter and wither away. Many other dimensions of the business environment also matter but are outside the scope of *Doing Business*. For example, *Doing Business* does not capture such aspects as security, market size, macroeconomic stability and the prevalence of bribery and corruption. Nevertheless, improving in the areas measured by *Doing Business* is an important step toward a better business environment for all.

WHAT DOES *DOING BUSINESS* MEASURE—AND HOW IS IT CHANGING?

This year's *Doing Business* report launches a 2-year process of introducing important improvements in 8 of the 10 sets of *Doing Business* indicators. These improvements provide a new conceptual framework in which the emphasis on the efficiency of regulation is complemented by an increased emphasis on its quality. In the area of dealing with construction permits, for example, *Doing Business* will measure the quality of building regulations and the qualifications of the people reviewing the building plans in addition to the efficiency of the process for completing all the formalities to build a warehouse.

With a few exceptions, the original *Doing Business* indicators focused mainly on measuring efficiency, such as

- This year's *Doing Business* report launches a 2-year process of introducing improvements in 8 of the 10 *Doing Business* indicator sets—to complement the emphasis on the efficiency of regulation with a greater emphasis on its quality.
- New data show that efficiency and quality go hand in hand. Insolvency cases are resolved more quickly, and with better outcomes, where insolvency laws are well designed. Property transfers are faster and less costly in economies with good land administration systems. And commercial disputes are resolved more efficiently by courts using internationally recognized good practices.
- For the first time this year, *Doing Business* collected data for 2 cities in large economies. The data show few differences between cities within economies in indicators measuring the strength of legal institutions, which typically apply nationwide. Differences are more common in indicators measuring the complexity and cost of regulatory processes, where local jurisdictions play a larger role.
- Sub-Saharan Africa accounts for 5 of the 10 top improvers in 2013/14. The region also accounts for the largest number of regulatory reforms making it easier to do business in the past year—75 of the 230 worldwide. More than 70% of its economies carried out at least one such reform.
- Business regulations such as those measured by *Doing Business* are important for new business creation and for the performance of small firms.

by recording the procedures, time and cost to start a business or to transfer property. These are very important aspects to measure. But as the project's importance grew, it became clear that there was a need to expand what was being measured to include more aspects of regulatory quality. Many of the improvements in methodology were inspired and informed by the report of the Independent Panel on *Doing Business* as well as by input from policy makers and data users.[1] They also benefited from discussions at the *Doing Business* research conference held in Washington, DC, in February 2014. (For more details on the changes in methodology, see the chapter on what is changing in *Doing Business*.)

Doing Business continues to focus on regulations that affect domestic small and medium-size enterprises, operating in the largest business city of an economy, across 10 areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. *Doing Business* also measures labor market regulation, which is not included in any of the aggregate measures. The indicator sets for 3 of the 10 topics are being expanded in this year's report; those for 5 others will be expanded in next year's report (figure 1.1).

In another change starting in this year's report, *Doing Business* has extended its coverage to include the second largest business city in economies with a population of more than 100 million. These economies are Bangladesh, Brazil, China, India, Indonesia, Japan, Mexico, Nigeria, Pakistan, the Russian Federation and the United States.

In addition, while *Doing Business* continues to publish the ease of doing business ranking, this year's report introduces a change in the basis for the ranking, from the percentile rank to the distance to frontier score. The distance to frontier score benchmarks economies with respect to a measure of regulatory best practice—showing the gap between each economy's performance and the best performance on each indicator.[2] This measure captures more information than the simple rankings previously used as the basis for the ease of doing business ranking because it shows not only how economies are ordered on their performance on the indicators but also how far apart they are.

The distance to frontier score also provides an important complement to the ease of doing business ranking in analyzing changes in an economy's business regulatory environment. An example at the global level suggests why: the time series of the distance to frontier scores overwhelmingly shows improvements in business regulations around the world, while in the ease of doing business ranking, for every economy that goes up another must go down. (For more details on the differences between the 2 measures, see the chapter on the distance to frontier and ease of doing business ranking.)

While the changes being implemented this year are substantive, there is a strong correlation at the aggregate level between this year's data under the old methodology and the same data under the new one (figure 1.2). This is not surprising, since changes are being introduced for only 3 of the 10 topics this year. But even with a high correlation there can still be relatively large shifts in ranking in some cases. This is particularly likely for economies in the middle of the distribution, in part because they are more closely bunched and small shifts in their distance to frontier scores will therefore tend to have a greater impact on their positions relative to other economies. Another reason is that these are the economies that historically have made more intense efforts to reform business regulation.

The *Doing Business* website presents comparable data for this year and last, making it possible to assess the extent to which there has been an improvement in business regulation in any economy as tracked by the distance to frontier measure. Moreover, because most of the changes in methodology involve adding new indicators rather than revising existing ones, data for more than 90% of the previously existing indicators remain comparable over time. The full series are available on the website.

FIGURE 1.1 What *Doing Business* continues to cover and what it is adding

What continues to cover
- Procedures, time, cost and paid-in minimum capital to start a business
- Procedures, time and cost to complete all formalities to build a warehouse
- Procedures, time and cost to get connected to the electrical grid
- Procedures, time and cost to transfer a property
- Movable collateral laws and credit information systems
- Minority shareholders' rights in related-party transactions
- Payments, time and total tax rate for a firm to comply with all tax regulations
- Documents, time and cost to export and import by seaport
- Procedures, time and cost to resolve a commercial dispute
- Time, cost, outcome and recovery rate for a commercial insolvency

What this year's report adds
- More features on the strength of legal rights and depth of credit information
- More features on minority shareholders' rights
- A measure of the strength of the legal framework for insolvency
- An additional city in the 11 economies with a population of more than 100 million
- Ease of doing business ranking based on the distance to frontier score

What next year's report will add
- Measures of the quality of building regulations
- Measures of the reliability of the electricity supply
- Measures of the quality of the land administration system
- Measures of the postfiling process in paying taxes
- Measures of the quality of the judicial administration system

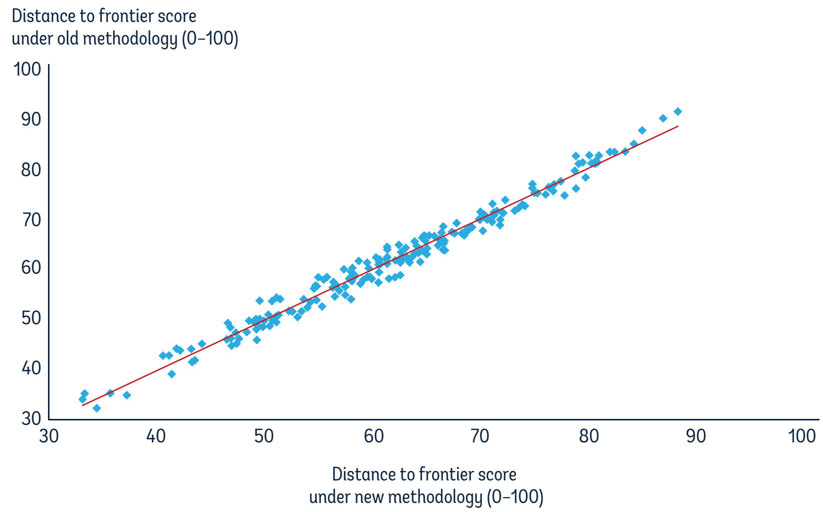
WHERE ARE REGULATIONS MORE BUSINESS-FRIENDLY?

Singapore continues to be the economy with the most business-friendly regulations (table 1.1). And while there was some reordering of economies within the top 20 in the ease of doing business ranking, the list remains very similar to last year's: 17 economies stayed on the list, while 3 entered this year—Estonia, Germany and Switzerland. Economies in the top 20 continued to improve their business regulatory environment in the past year. For example, Switzerland made starting a business easier by introducing online procedures and strengthened minority investor protections by increasing the level of transparency required from listed companies. And Sweden made registering property easier through a new online system that became fully operational in the past year. The system provides comprehensive coverage, allowing users to conduct searches and file registrations from anywhere in the country.

The 20 economies at the top of the ease of doing business ranking perform well not only on the *Doing Business* indicators but also in other international data sets capturing dimensions of competitiveness. The economies performing best in the *Doing Business* rankings therefore are not those with no regulation but those whose governments have managed to create rules that facilitate interactions in the marketplace without needlessly hindering the development of the private sector. Moreover, even outside the top 20 economies there is an association between performance in the ease of doing business ranking and performance on measures of quality of government and governance. For example, in a sample of 78 mostly low- and lower-middle-income economies the distance to frontier score is strongly correlated with the International Development Association (IDA) Resource Allocation Index, which measures the quality of a country's policies and institutional arrangements.[3]

The distance to frontier scores underlying the ease of doing business rankings reveal some regional patterns. OECD high-income economies have the highest distance to frontier scores on average, indicating that this regional group has the most business-friendly regulations overall (figure 1.3). But best practices in business regulation can be

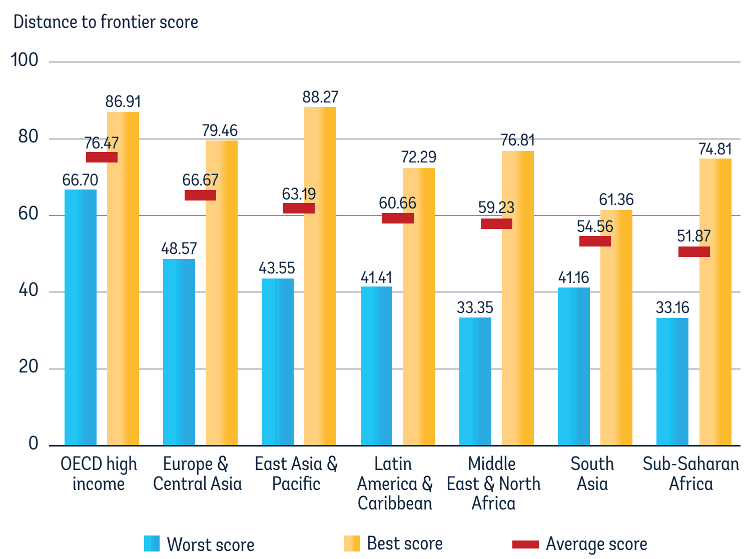
FIGURE 1.2 Distance to frontier scores remain similar under the new methodology



Note: The figure compares distance to frontier scores based on this year's data computed using the old (*Doing Business 2014*) methodology with scores based on the same data computed using the new methodology. The differences between the 2 series are in protecting minority investors, resolving insolvency, the depth of credit information index in getting credit and the distance to frontier calculation for the total tax rate in paying taxes. It is not possible to isolate the changes in the strength of legal rights index in getting credit. The 45-degree line shows where the scores under the old and new methodologies are equal. The correlation between the 2 scores is 0.99. For analysis of the effect of the change in ranking calculation, see figure 3.1 in the chapter on what is changing in *Doing Business*.

Source: Doing Business database.

FIGURE 1.3 Big gaps between the highest and lowest distance to frontier scores in some regions



Source: Doing Business database.

TABLE 1.1 Ease of doing business ranking

Rank	Economy	DTF score		Rank	Economy	DTF score		Rank	Economy	DTF score	
1	Singapore	88.27		64	Cyprus	66.55	↑	127	Mozambique	56.92	↑
2	New Zealand	86.91	↑	65	Croatia	66.53	↑	128	Lesotho	56.64	↑
3	Hong Kong SAR, China	84.97	↑	66	Oman	66.39	↑	128	Pakistan	56.64	↑
4	Denmark	84.20	↑	67	Samoa	66.17		130	Iran, Islamic Rep.	56.51	↑
5	Korea, Rep.	83.40	↑	68	Albania	66.06	↑	131	Tanzania	56.38	↑
6	Norway	82.40	↑	69	Tonga	65.72		132	Ethiopia	56.31	↑
7	United States	81.98	↑	70	Ghana	65.24	↑	133	Papua New Guinea	55.78	
8	United Kingdom	80.96	↑	71	Morocco	65.06	↑	134	Kiribati	55.48	↑
9	Finland	80.83		72	Mongolia	65.02	↑	135	Cambodia	55.33	↑
10	Australia	80.66		73	Guatemala	64.88	↑	136	Kenya	54.98	↑
11	Sweden	80.60	↑	74	Botswana	64.87	↑	137	Yemen, Rep.	54.84	
12	Iceland	80.27		75	Kosovo	64.76	↑	138	Gambia, The	54.81	↑
13	Ireland	80.07	↑	76	Vanuatu	64.60	↑	139	Marshall Islands	54.72	
14	Germany	79.73		77	Kazakhstan	64.59	↑	140	Sierra Leone	54.58	↑
15	Georgia	79.46		78	Vietnam	64.42	↑	141	Uzbekistan	54.26	↑
16	Canada	79.09		79	Trinidad and Tobago	64.24	↑	142	India	53.97	↑
17	Estonia	78.84	↑	80	Azerbaijan	64.08	↑	143	West Bank and Gaza	53.62	↑
18	Malaysia	78.83	↑	81	Fiji	63.90	↑	144	Gabon	53.43	
19	Taiwan, China	78.73	↑	82	Uruguay	63.89	↑	145	Micronesia, Fed. Sts.	53.07	↑
20	Switzerland	77.78	↑	83	Costa Rica	63.67	↑	146	Mali	52.59	↑
21	Austria	77.42	↑	84	Dominican Republic	63.43	↑	147	Côte d'Ivoire	52.26	↑
22	United Arab Emirates	76.81	↑	85	Seychelles	63.16	↑	148	Lao PDR	51.45	↑
23	Latvia	76.73	↑	86	Kuwait	63.11	↑	149	Togo	51.29	↑
24	Lithuania	76.31	↑	87	Solomon Islands	63.08	↑	150	Uganda	51.11	↑
25	Portugal	76.03	↑	88	Namibia	62.81		151	Benin	51.10	↑
26	Thailand	75.27	↑	89	Antigua and Barbuda	62.64	↑	152	Burundi	51.07	↑
27	Netherlands	75.01		90	China	62.58	↑	153	São Tomé and Príncipe	50.75	↑
28	Mauritius	74.81	↑	91	Serbia	62.57		154	Algeria	50.69	↑
29	Japan	74.80		92	Paraguay	62.50	↑	155	Djibouti	50.48	↑
30	Macedonia, FYR	74.11	↑	93	San Marino	62.44	↑	156	Iraq	50.36	
31	France	73.88	↑	94	Malta	62.11	↑	157	Bolivia	49.95	↑
32	Poland	73.56	↑	95	Philippines	62.08		158	Cameroon	49.85	
33	Spain	73.17	↑	96	Ukraine	61.52	↑	159	Comoros	49.56	↑
34	Colombia	72.29	↑	97	Bahamas, The	61.37	↑	160	Sudan	49.55	↑
35	Peru	72.11	↑	97	Dominica	61.37	↑	161	Senegal	49.37	↑
36	Montenegro	72.02	↑	99	Sri Lanka	61.36	↑	162	Suriname	49.29	↑
37	Slovak Republic	71.83	↑	100	St. Lucia	61.35	↑	163	Madagascar	49.25	↑
38	Bulgaria	71.80	↑	101	Brunei Darussalam	61.26	↑	164	Malawi	49.20	↑
39	Mexico	71.53	↑	102	Kyrgyz Republic	60.74		165	Equatorial Guinea	49.01	↑
40	Israel	71.25	↑	103	St. Vincent and the Grenadines	60.66	↑	166	Tajikistan	48.57	↑
41	Chile	71.24	↑	104	Honduras	60.61		167	Burkina Faso	48.36	↑
42	Belgium	71.11		104	Lebanon	60.61	↑	168	Niger	47.63	↑
43	South Africa	71.08		106	Barbados	60.57		169	Guinea	47.42	↑
44	Czech Republic	70.95	↑	107	Bosnia and Herzegovina	60.55	↑	170	Nigeria	47.33	↑
45	Armenia	70.60	↑	108	Nepal	60.33	↑	171	Zimbabwe	46.95	↑
46	Rwanda	70.47	↑	109	El Salvador	59.93	↑	172	Timor-Leste	46.89	↑
47	Puerto Rico (U.S.)	70.35		110	Swaziland	59.77	↑	173	Bangladesh	46.84	↑
48	Romania	70.22	↑	111	Zambia	59.65		174	Liberia	46.61	↑
49	Saudi Arabia	69.99		112	Egypt, Arab Rep.	59.54	↑	175	Syrian Arab Republic	46.51	
50	Qatar	69.96	↑	113	Palau	59.50		176	Mauritania	44.21	
51	Slovenia	69.87	↑	114	Indonesia	59.15	↑	177	Myanmar	43.55	↑
52	Panama	69.22	↑	115	Ecuador	58.88	↑	178	Congo, Rep.	43.29	↑
53	Bahrain	69.00	↑	116	Maldives	58.73	↑	179	Guinea-Bissau	43.21	
54	Hungary	68.80	↑	117	Jordan	58.40	↑	180	Haiti	42.18	↑
55	Turkey	68.66	↑	118	Belize	58.14	↑	181	Angola	41.85	↑
56	Italy	68.48	↑	119	Nicaragua	58.09	↑	182	Venezuela, RB	41.41	↑
57	Belarus	68.26	↑	120	Brazil	58.01	↑	183	Afghanistan	41.16	
58	Jamaica	67.79	↑	121	St. Kitts and Nevis	58.00	↑	184	Congo, Dem. Rep.	40.60	↑
59	Luxembourg	67.60	↑	122	Cabo Verde	57.94		185	Chad	37.25	↑
60	Tunisia	67.35		123	Guyana	57.83	↑	186	South Sudan	35.72	↑
61	Greece	66.70	↑	124	Argentina	57.48	↑	187	Central African Republic	34.47	
62	Russian Federation	66.66	↑	125	Bhutan	57.47		188	Libya	33.35	
63	Moldova	66.60	↑	126	Grenada	57.35	↑	189	Eritrea	33.16	↑

Note: The rankings are benchmarked to June 2014 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities. An arrow indicates an improvement in the score between 2013 and 2014 (and therefore an improvement in the overall business environment as measured by *Doing Business*), while the absence of one indicates either no improvement or a deterioration in the score. The score for both years is based on the new methodology.
Source: Doing Business database.

found in almost all regions. In 6 of the 7 regions the highest distance to frontier score is above 70. The difference between the best and worst scores in a region can be substantial, however, especially in East Asia and the Pacific, the Middle East and North Africa and Sub-Saharan Africa.

WHO IMPROVED THE MOST IN 2013/14?

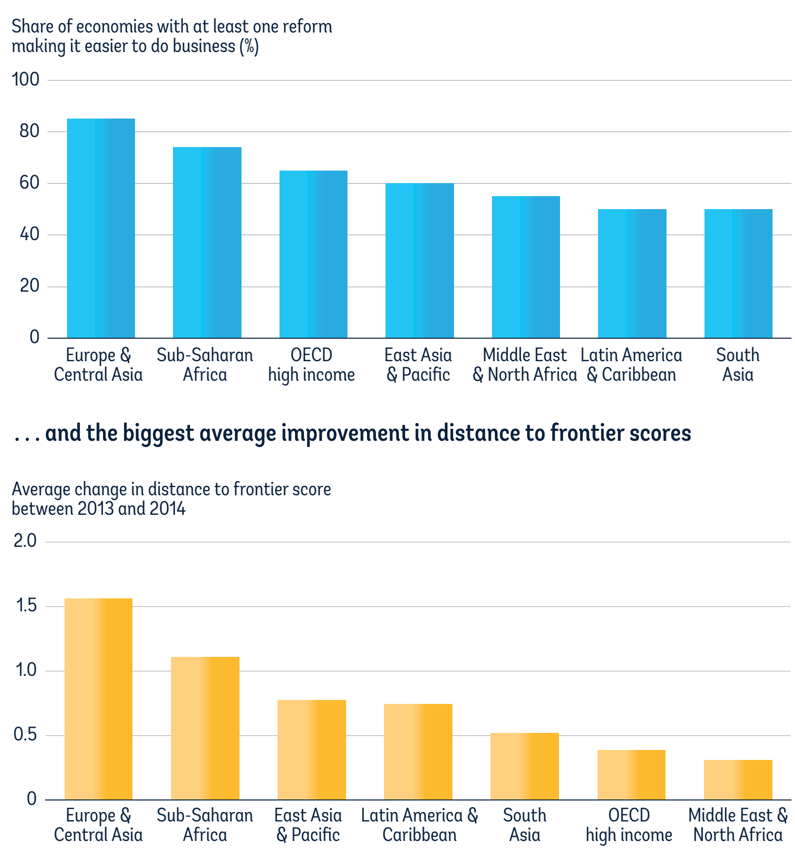
Since 2004 the *Doing Business* report has captured more than 2,400 regulatory reforms making it easier to do business. In the year from June 1, 2013, to June 1, 2014, 123 economies implemented at least one reform in the areas measured by *Doing Business*—230 in total. More than 63% of these reforms reduced the complexity and cost of regulatory processes, while the others strengthened legal institutions. Twenty-one economies, including 6 in Sub-Saharan Africa and 6 in the OECD high-income group, implemented 3 or more reforms reducing burdensome bureaucracy or improving legal and regulatory frameworks.[4] Globally, more than 80% of the economies covered by *Doing Business* had an improvement in their distance to frontier score—it is now easier to do business in most parts of the world.

Sub-Saharan Africa, the region with the largest number of economies, accounted for the largest number of regulatory reforms in 2013/14, with 39 reducing the complexity and cost of regulatory processes and 36 strengthening legal institutions. As in previous years, however, Europe and Central Asia had the largest share of economies implementing at least one regulatory reform, with some 85% doing so (figure 1.4). Sub-Saharan Africa had the second largest share of economies implementing at least one reform and the second largest average improvement in distance to frontier scores. Latin America and the Caribbean and South Asia remain the 2 regions with the smallest share of economies implementing regulatory reforms as captured by *Doing Business.*

Among the 21 economies with the most reforms making it easier to do business in 2013/14, 10 stand out as having improved the most in performance on the *Doing Business* indicators: Tajikistan, Benin, Togo, Côte d'Ivoire, Senegal, Trinidad and Tobago, the Democratic Republic of Congo, Azerbaijan, Ireland and the United Arab Emirates (table 1.2). Together, these 10 top improvers implemented 40 regulatory reforms making it easier to do business. Among these 10, only Côte d'Ivoire featured among the 10 top improvers in last year's report. And only 4 place among the top 100 in the overall ease of doing business ranking; Ireland has the highest ranking, at 13. Being recognized as top improvers does not mean that these economies have exemplary business regulations; instead, it shows that thanks to serious efforts in regulatory reform in the past year, they made the biggest advances toward the frontier in regulatory practice (figure 1.5). Many of the 10 top improvers still face many challenges on their way to international best practices in business regulation, including high bureaucratic obstacles, political instability and weak financial institutions.

Among the 10 top improvers, Tajikistan made the biggest advance toward the regulatory frontier in the past year, thanks to improvements in several areas. For example, starting a business in Tajikistan is now easier as a result of the implementation of new software at the one-stop shop and the elimination of one of the business registration procedures. A reduction of fees made

FIGURE 1.4 Europe and Central Asia had both the largest share of economies making it easier to do business in 2013/14 . . .



Source: Doing Business database.

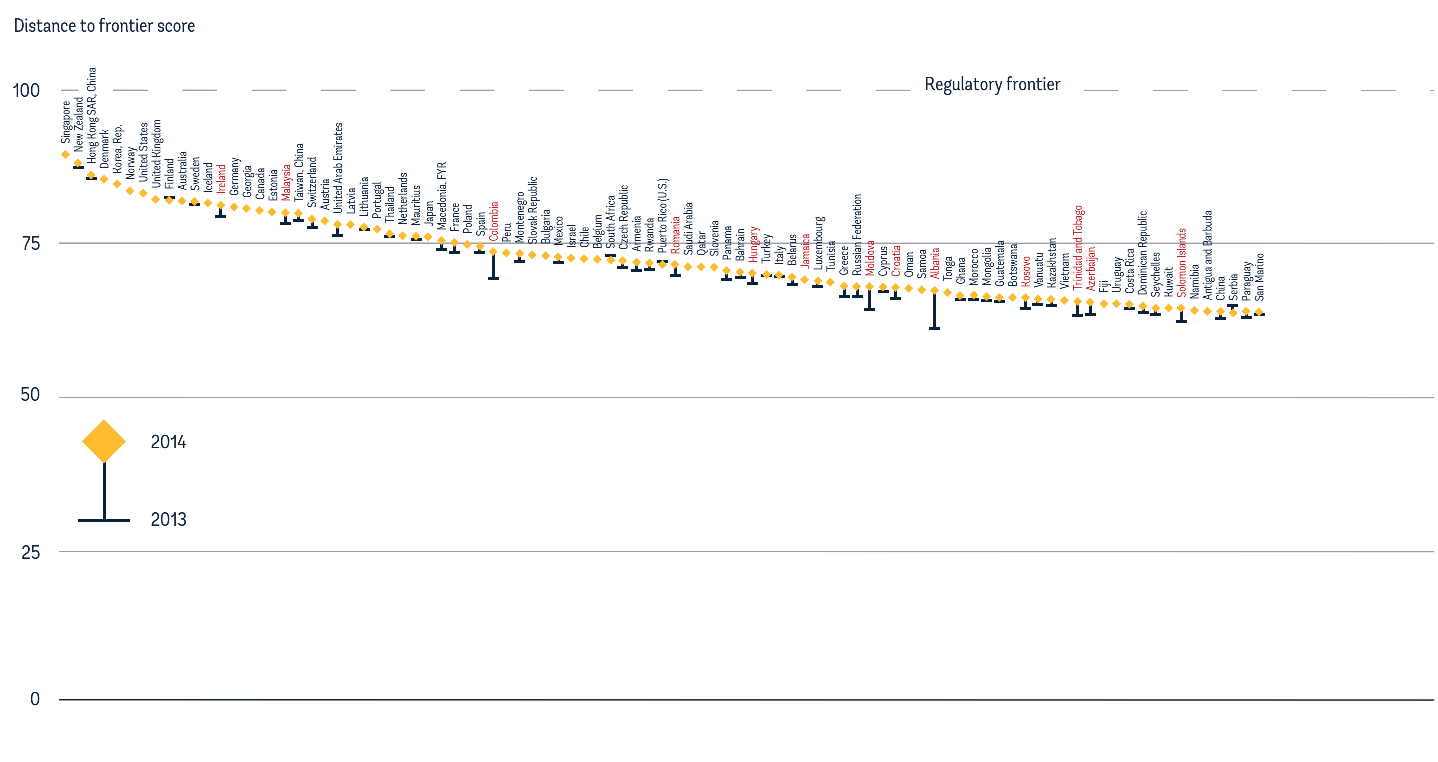
TABLE 1.2 The 10 economies improving the most across 3 or more areas measured by *Doing Business* in 2013/14

	Ease of doing business rank	Reforms making it easier to do business									
		Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Tajikistan	166	√	√			√		√			
Benin	151	√					√		√	√	
Togo	149	√			√		√	√			
Côte d'Ivoire	147	√			√	√	√		√		
Senegal	161	√	√		√	√	√	√			
Trinidad and Tobago	79	√				√					√
Congo, Dem. Rep.	184	√		√		√	√	√			
Azerbaijan	80	√			√			√			
Ireland	13				√	√				√	
United Arab Emirates	22				√	√	√				

Note: Economies are selected on the basis of the number of their reforms and ranked on how much their distance to frontier score improved. First, *Doing Business* selects the economies that implemented reforms making it easier to do business in 3 or more of the 10 topics included in this year's aggregate distance to frontier score. Regulatory changes making it more difficult to do business are subtracted from the number of those making it easier. Second, *Doing Business* ranks these economies on the improvement in their distance to frontier score from the previous year. The improvement in their score is calculated not by using the data published in 2013 but by using comparable data that capture data revisions and methodology changes. The choice of the most improved economies is determined by the largest improvements in the distance to frontier score among those with at least 3 reforms.

Source: Doing Business database.

FIGURE 1.5 How far have economies moved toward the frontier in regulatory practice since 2013?



Note: The distance to frontier score shows how far on average an economy is at a point in time from the best performance achieved by any economy on each *Doing Business* indicator since 2005 or the third year in which data for the indicator were collected. The measure is normalized to range between 0 and 100, with 100 representing the frontier. The vertical bars show the change in the distance to frontier score from 2013 to 2014; for more details, see the note to table 1.1. The 30 economies improving the most are highlighted in red.

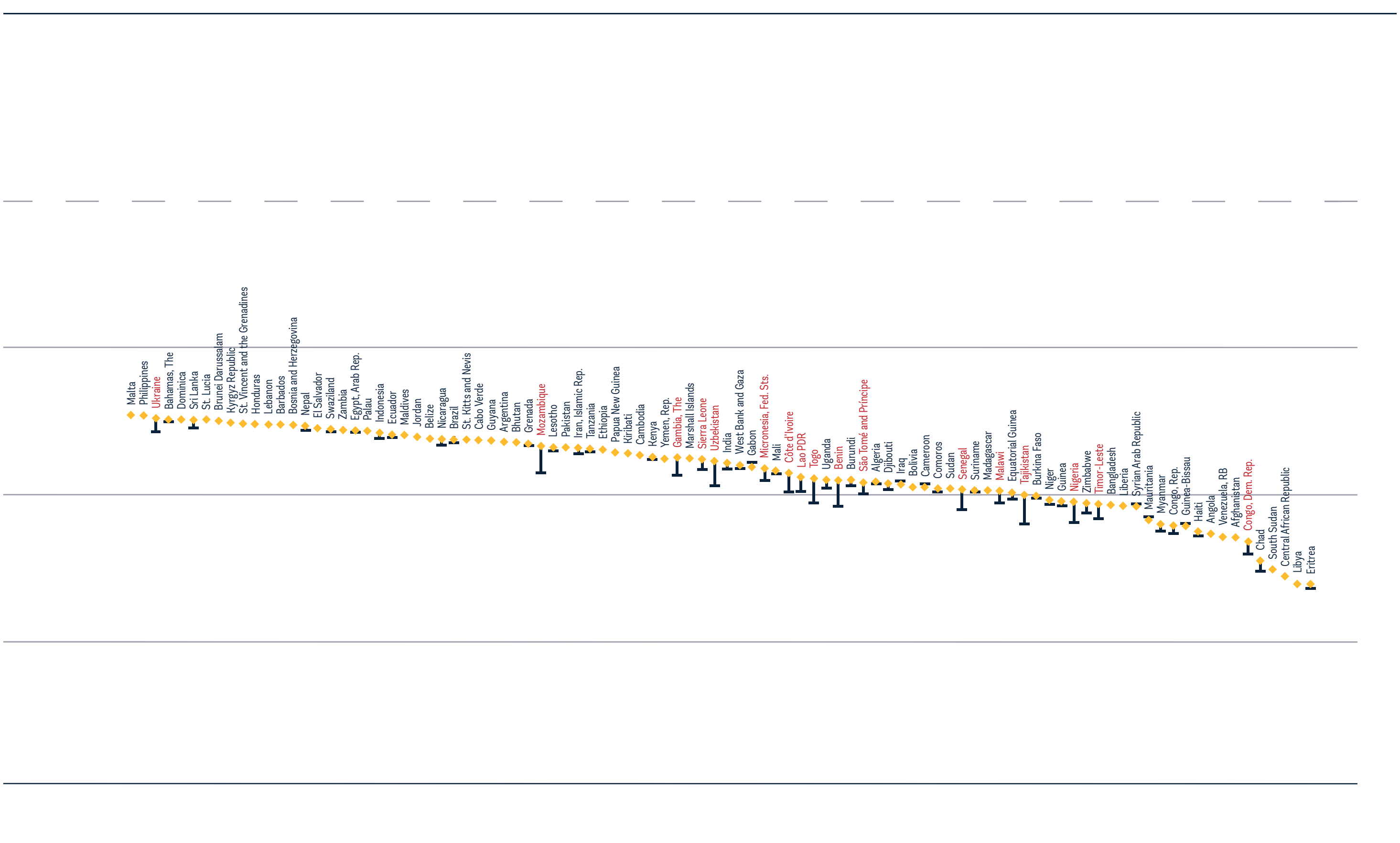
Source: Doing Business database.

dealing with construction permits less costly, and the introduction of an electronic system for filing and paying the corporate income tax, value added tax and labor taxes made paying taxes easier. Finally, the Credit Information Bureau of Tajikistan improved access to credit information by starting to provide credit scores in June 2013.

Eight of the 10 top improvers carried out reforms making it easier to start a business, while 7 implemented reforms making it easier to get credit. Some of these changes were inspired by transnational initiatives. One such initiative was the revision by the Council of Ministers of the Organization for the Harmonization of Business Law in Africa (OHADA) of the Uniform Act on Commercial Companies and Economic Interest Groups. The revised act authorizes each member state to adopt national legislation reducing its paid-in minimum capital requirement—the amount of capital that entrepreneurs need to deposit in a bank account or with a notary before or within 3 months of incorporation. Benin, Côte d'Ivoire, Senegal and Togo were all among the OHADA member economies that did so in 2013/14. Côte d'Ivoire and Senegal also took measures within the framework of the West African Economic and Monetary Union. Both adopted the Uniform Law on the Regulation of Credit Information Bureaus ahead of other member states, providing a legal framework to establish credit information bureaus.

Reforms making it easier to get credit were also undertaken at the national level. In the United Arab Emirates the credit bureau Emcredit and the Dubai Electricity and Water Authority (DEWA) began exchanging credit information in October 2013. As a result, the credit bureau can now identify customers with unpaid DEWA accounts beyond 90 days and the utility has access to the bureau's bounced check repository. Ireland improved its credit information system by passing a new act that provides for the establishment and operation of a credit registry. And in Trinidad and Tobago a new insolvency law strengthened protections of secured creditors' rights in insolvency proceedings, giving greater flexibility in enforcement actions.

Six of the 10 top improvers reformed their property registration processes and 6 strengthened the rights of minority shareholders, with Côte d'Ivoire, Senegal, Togo and the United Arab



Emirates reforming in both these areas. These 4 economies strengthened minority investor protections by making it possible for shareholders to inspect documents pertaining to related-party transactions as well as to appoint auditors to conduct inspections. Moreover, the United Arab Emirates introduced additional approval requirements for related-party transactions, greater requirements for disclosure of such transactions to the stock exchange and a requirement that interested directors be held liable if a related-party transaction is unfair or constitutes a conflict of interest. The United Arab Emirates also made it possible for shareholders to request the rescission of unfair related-party transactions.

Highlights of reforms making it easier to register property include Azerbaijan's introduction of an online procedure for obtaining nonencumbrance certificates for property transfers. Senegal made property transfers easier by eliminating the requirement for authorization by the tax authority. Now applicants for a property transfer need only notify the tax authority before proceeding with the property transaction at the land registry.

Two of the 10 top improvers implemented reforms making it easier to trade across borders. Benin reduced the number of documents needed for customs clearance of imports. The technical standard or health certificate is now no longer required except for food imports. Côte d'Ivoire simplified the process for producing the inspection report for imported cargo and lowered port and terminal handling charges at the port of Abidjan by introducing new customs and port management.

Among the areas with the fewest reforms by the 10 top improvers are enforcing contracts, with 2, and resolving insolvency, with 1. Benin made enforcing contracts easier by creating a commercial section within its court of first instance. Trinidad and Tobago made resolving insolvency easier by introducing a statutory mechanism for rehabilitation of insolvent companies as an alternative to previously available voluntary and court-ordered winding-up proceedings. (For more detail on the reform patterns in the past year, see the chapter on reforming the business environment.)

WHAT DO THE NEW DATA SHOW ABOUT DIFFERENCES BETWEEN CITIES?

Subnational *Doing Business* reports have covered more than 300 cities in 55 economies in the nearly 10 years that they have been published. For the first time this year, the global *Doing Business* report also extends its coverage beyond the largest business city in each economy. For the 11 economies with a population of more than 100 million, *Doing Business* now covers the second largest business city as well as the largest one. The data provide new insights into the variability of business regulation within economies.

The sets of indicators showing limited variability across cities in the same economy tend to be those measuring the strength of legal institutions—getting credit, protecting minority investors, enforcing contracts and resolving insolvency, which mainly draw from national laws with general applicability (figure 1.6). Variability is more common for the sets of indicators measuring the complexity and cost of regulatory processes—starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. But this variability is more likely to be in time and cost than in the number of procedures, suggesting that in most cases the law is the same across cities though its implementation may vary.

In all 11 economies the data for getting credit—both on the strength of legal rights and on the depth of credit information—are the same for the 2 cities covered. This is easy to explain. Credit information systems tend to operate at the national level, not at the city or state level. Collateral laws also tend to be national, and even in the United States, where these laws are under state jurisdiction, there is enough legal harmonization so that the 2 cities in the sample have the same score on the strength of legal rights index. In the area of protecting minority investors all 11 economies again show no difference between the 2 cities in the aggregate score. In the United States, however, there are differences in some of the data embedded in the indicators for Los Angeles and New York City—because company law is under state jurisdiction and there are measurable differences between the California and New York company law.

In the area of resolving insolvency only 4 of the 11 economies have a difference between the 2 cities in the recovery rate and none have a difference in the strength of insolvency framework index. The pattern is different in the area of enforcing contracts. Only 4 of the 11 economies have a difference in the number of procedures to resolve a commercial dispute. In all 4 of these economies one of the pair of cities has a specialized commercial court (Rio de Janeiro, Monterrey, Lagos and New York City) while the other does not (São Paulo, Mexico City, Kano and Los Angeles). But the time and cost to resolve a commercial dispute differ between the 2 cities in 7 of the 11 economies and the differences in time can be significant. In Nigeria, for example, resolving a commercial dispute takes 720 days in Kano but 447 days in Lagos.

There is also more variation at the city level in the other indicators. For example, only 4 economies have the same tax system in both the 2 major business cities—Bangladesh, India, Indonesia and Nigeria. In all the other large economies the total tax rate differs between the 2 cities. In the area of starting a business the paid-in minimum capital requirement is the same in the 2 cities in all 11 economies, and the number of procedures differs in only 4 economies. But the time and cost to start a business differ between the 2 cities in 8 economies. Only in Bangladesh and Pakistan is the process the same in the 2 cities. Similarly, the procedures to transfer a property between 2 firms differ in only 4 economies but the cost to do so differs in 9 economies. Only in Japan and Russia is the process the same in the 2 cities.

In dealing with construction permits and getting electricity 10 economies show some degree of difference between the 2 cities, and in trading across borders all 11 economies do so. These are the areas of regulation measured by *Doing Business* where location matters the most. Building permits are commonly issued by municipalities. Similarly, electricity connections are often provided by local utilities. And the distance to the nearest port is an important factor in determining the time and cost to export and import, leading to differences even within the same economy.

Labor market regulation can also vary across cities within an economy. In 6 of the 11 economies—Brazil, China, India, Indonesia, Japan and Russia—the 2 cities in the sample have different minimum wage levels. This is mainly to account for differences in the cost of living. In all these cases except Brazil and India, the largest business city has a higher minimum wage than the second largest one. In addition, in India the largest business city (Mumbai) has longer paid annual leave, with 21 days, than the second largest one (Delhi), with 15.

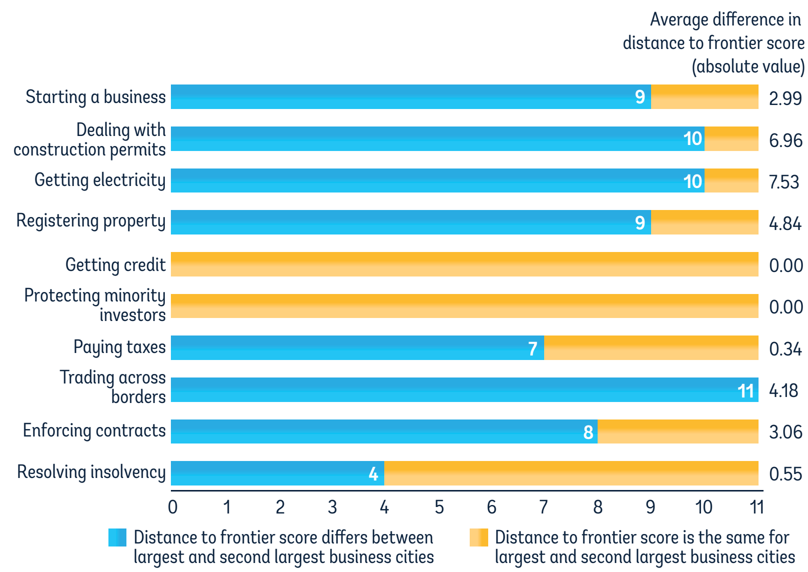
Does city size matter for having business-friendly regulations? At first glance the data suggest that it does not. In 6 of the 11 economies the largest business city performs better on the *Doing Business* indicators overall than the second largest one, while in the other 5 the second largest business city has the higher score. And in the economies where the second largest business city has a substantially smaller population (at most 30% of the largest business city's population), the second city has more business-friendly regulations overall. This is the case for Kano, Monterrey and Surabaya.

Among the 11 economies, the United States has the highest number of differences between the largest and second largest business cities: Los Angeles and New York City differ in 9 of the 10 topics (while the 2 cities have the same overall score on the strength of minority investor protections, they have differences in the underlying indicators). Japan has the fewest: Osaka and Tokyo differ in only 4 topics—starting a business, getting electricity, paying taxes and trading across borders. Overall, the differences between cities within the same economy are very small, as shown in figure 3.2 in the chapter on what is changing in *Doing Business*.

WHAT IS THE RELATIONSHIP BETWEEN EFFICIENCY AND QUALITY?

One of the big innovations in this year's report is the expansion of the data on the quality of regulation. Measuring aspects of the quality of regulation is not new for *Doing Business*; some indicator sets, such as getting credit and protecting minority investors, already included a focus on regulatory quality. But starting this year a systematic effort is being made to include measures of quality in most of the indicator sets. This year's report introduces a new measure of quality in the resolving insolvency indicator set and expands the measures of quality in the getting

FIGURE 1.6 Indicators measuring the strength of legal institutions show less difference between cities within economies than those measuring the complexity and cost of regulatory processes



Note: The figure shows data for the 11 large economies for which *Doing Business* covers both the largest and the second largest business city.
Source: Doing Business database.

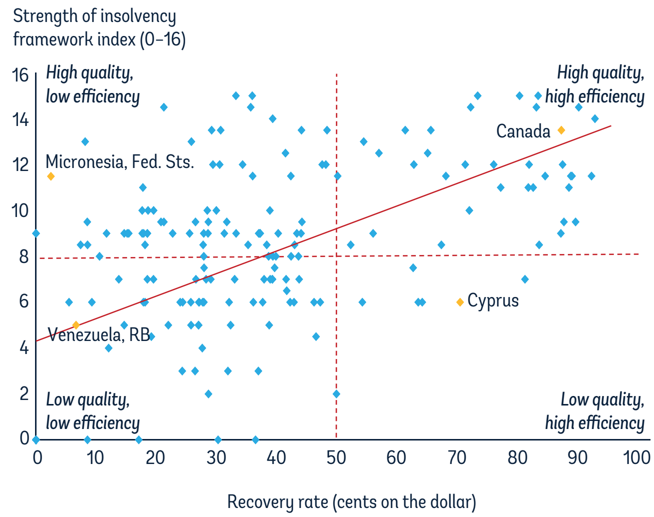
credit and protecting minority investors indicator sets. Next year's report will add measures of regulatory quality to the indicator sets for dealing with construction permits, getting electricity, registering property, paying taxes and enforcing contracts.

The results so far suggest that efficiency and quality go hand in hand. For resolving insolvency the data show that there is a positive correlation between the recovery rate for creditors and the strength of the legal framework for insolvency (figure 1.7). The recovery rate measures the cents on the dollar recouped by secured creditors through insolvency proceedings and is a measure of efficiency because time and cost are 2 important components. The strength of insolvency framework index measures how well insolvency laws accord with internationally recognized good practices and is therefore a proxy for quality.

Very few economies have an insolvency system with both high efficiency (a recovery rate of more than 50 cents on the dollar) and low quality (a score on the strength of insolvency framework index of less than 8 of the possible 16 points). But many economies have an insolvency system with low efficiency and high quality. These are economies that have well-designed laws but face challenges in implementing them effectively.

These results suggest that well-designed laws are necessary but not sufficient to achieve efficiency in an insolvency system. The Federated States of Micronesia, for example, has a score of 11.5 on the strength of insolvency framework index, yet creditors in that country should expect to recover only 3.3 cents for every dollar they have loaned to a firm that becomes insolvent. So an insolvency law of above-average quality does not necessarily mean above-average recovery rates for creditors. On average, though, economies with better-designed laws tend to have higher recovery rates.

FIGURE 1.7 Better insolvency laws, higher recovery rate



Note: The correlation between the strength of insolvency framework index and the recovery rate is 0.59. The relationship is significant at the 1% level after controlling for income per capita.
Source: Doing Business database.

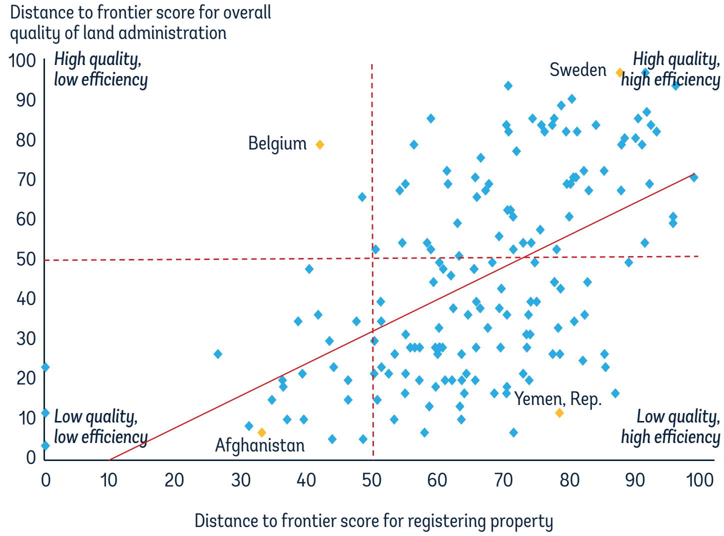
Preliminary data for a new indicator being developed to measure regulatory quality in registering property reinforce the idea that efficiency and quality go hand in hand: economies that offer a simple, fast and inexpensive process for transferring property are also likely to have a land administration system providing reliable land records (figure 1.8).

The new indicator under development measures the reliability, transparency and geographic coverage of land administration systems as well as elements of land dispute resolution. The indicator focuses on such aspects as whether the land registry and mapping system (cadastre) have adequate infrastructure to guarantee high standards of quality for the information recorded, whether information is easily accessible to the public and whether the land registry and cadastre cover the entire territory of the economy. Preliminary data show that virtually all economies that score well on the overall quality of land administration (with a distance to frontier score above 50 for the indicator) also score well on efficiency in transferring property (with an average distance to frontier score above 50 for the procedures, time and cost).

But many economies have a property transfer process that is efficient yet lacks quality. Thus while these economies make the transfer of property simple, fast and inexpensive, the lack of quality in the land administration system is likely to undermine the value of the property title. In the Republic of Yemen, for example, a transfer of property between 2 firms takes 6 procedures and only 19 days and costs 1.8% of the property value. But the land administration system keeps most of the land records on paper and does not assign a unique, searchable number to land parcels, making it difficult to provide reliable information.

Efforts are ongoing for other *Doing Business* topics as well. Preliminary data for a new measure of judicial quality and court infrastructure show a clear positive link between efficiency and quality in the area of enforcing contracts.

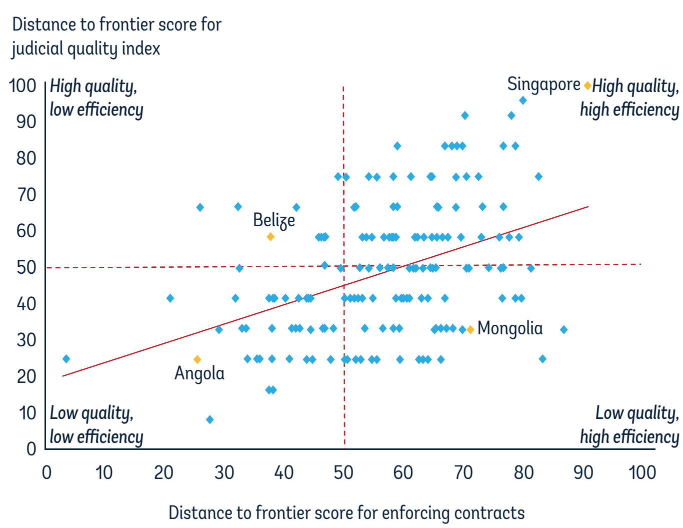
FIGURE 1.8 Better land administration system, faster property transfers



Note: The figure compares the distance to frontier score for the existing registering property indicators with the distance to frontier score for the new indicator on the quality of land administration (to be published for the first time in *Doing Business 2016*). The data for the new indicator are obtained through a set of questions on reliability, transparency, coverage and dispute resolution. For example, an economy receives 1 point if it has a functional electronic database for encumbrances, 1 point if it makes the documents and fee schedules for property registration publicly available (online or on public boards), 1 point if it compiles statistics on land transactions and makes them publicly available, and so on. The correlation between the 2 distance to frontier scores is 0.56. The relationship is significant at the 1% level after controlling for income per capita.

Source: Doing Business database.

FIGURE 1.9 Better courts, faster courts



Note: The figure compares the distance to frontier score for the existing enforcing contracts indicators with the distance to frontier score for the new index on judicial quality (to be published for the first time in *Doing Business 2016*). The index measures such aspects as whether the judicial system has a specialized commercial court or division, has a small claims court, offers voluntary mediation and arbitration and makes judgments in commercial cases available to the general public. The correlation between the 2 distance to frontier scores is 0.41. The relationship is significant at the 1% level after controlling for income per capita.

Source: Doing Business database.

Economies that make resolving a commercial dispute simpler, faster and less expensive also tend to have a judicial system that follows well-established good practices—such as having a specialized commercial court or division, having a small claims court, offering arbitration and voluntary mediation and making judgments in commercial cases available to the general public.

Unlike for resolving insolvency and registering property, however, for enforcing contracts the economies are more evenly spread across the 4 quadrants of quality and efficiency (figure 1.9). Singapore is among those that combine high efficiency and high quality. In that country resolving the standard commercial dispute in the *Doing Business* case study takes only 21 procedures and 150 days and costs 25.8% of the value of the claim. And not surprisingly, the judicial system follows several internationally recognized good practices, such as having a separate commercial court, providing arbitration, making judgments available to the public, using case management and allowing plaintiffs to file their initial complaint electronically. On the other hand, the judicial system in Mongolia, with no specialized commercial court or small claims court, can resolve the standard commercial dispute through 32 procedures in 374 days and at a cost of 30.6% of the claim value.

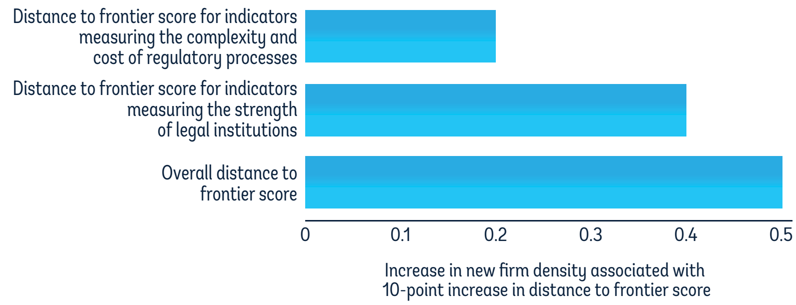
WHAT ARE THE BENEFITS OF MORE BUSINESS-FRIENDLY REGULATIONS?

As earlier *Doing Business* reports have discussed, the benefits of business-friendly regulations are well established in the economic literature. To name just a few:

- Reforms simplifying business registration lead to more firm creation.[5]
- Increasing trade openness has greater effects on growth where labor markets are more flexible.[6]

- Cumbersome, poorly functioning business regulation undermines entrepreneurship and economic performance.[7]
- Introducing collateral registries and debt recovery tribunals leads to better-performing credit markets.[8]
- Reforms improving access to credit and the efficiency of property registration are correlated with product and process innovation by young firms.[9]

FIGURE 1.10 Combined regulatory reforms are likely to have greater effects on new business registration than isolated ones



Note: New firm density is defined as the number of newly registered limited liability companies per 1,000 working-age people (ages 15–64). Indicators measuring the strength of legal institutions are those on getting credit, protecting minority investors, enforcing contracts and resolving insolvency. Indicators measuring the complexity and cost of regulatory processes are those on starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. The analysis uses data from 2003–13 for all economies covered by *Doing Business.*

Source: Divanbeigi and Ramalho 2014.

In addition, with the time series of *Doing Business* data now available, it is possible to study how changes in regulations within an economy over time lead to changes in development outcomes in that economy. One study shows, for example, that an improvement of 10 points in the overall distance to frontier score is linked to an increase in new firm density (the number of new firms created in a year per 1,000 adults) of around 0.5 (figure 1.10). And while small changes in the overall distance to frontier score may have a negligible link with growth, moving from the lowest quartile of improvement in business regulations to the highest quartile is associated with a significant increase in the annual per capita growth rate of around 0.8 percentage points.[10]

These results apply for different types of indicators but their intensity varies. For example, an increase of 10 points in the average distance to frontier score for the indicators measuring the complexity and cost of regulatory processes is associated with an increase in new firm density of about 0.2. The equivalent result for the indicators measuring the strength of legal institutions that support business regulation, such as commercial courts and credit bureaus, is 0.4. These results suggest that combining good regulations across different areas is important for business entry and that piecemeal regulatory reforms may be less effective than a broad reform program.

These results encourage further research to better understand the mechanisms behind the link between business regulations and firm creation and potentially economic growth. Firm-level data can provide some insights into these mechanisms. The analysis combined data from World Bank Enterprise Surveys for more than 40,000 observations (across firms and years) with *Doing Business* data to test how business regulations affect the performance of firms of different size classes. The analysis used distance to frontier scores to measure business regulations in the areas covered by *Doing Business* and growth in sales and employment to measure firm performance. The results show that improvements in the distance to frontier score have greater effects on sales and employment growth for small firms than for large ones.[11]

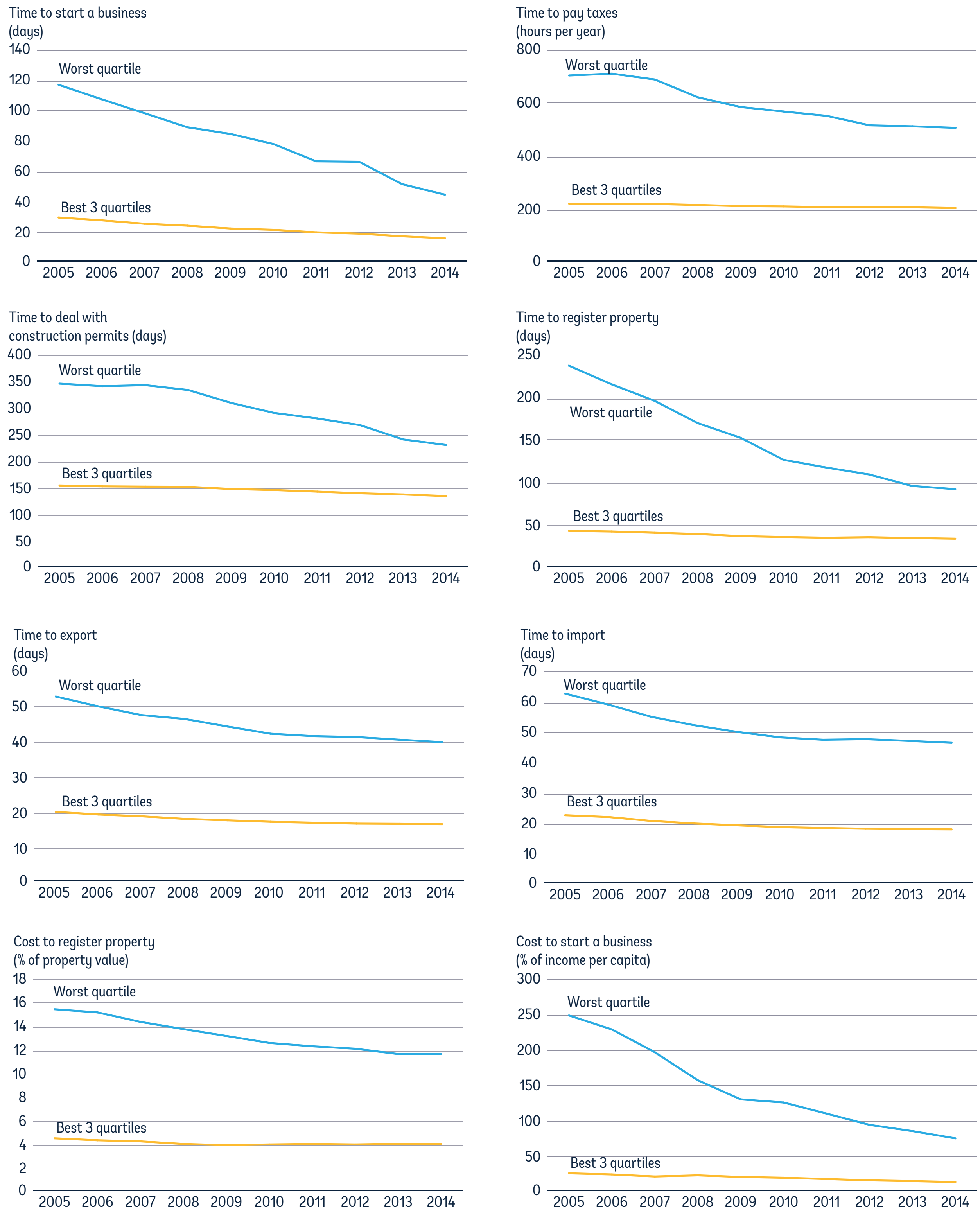
These results indicate that sound business regulations in the areas measured by *Doing Business* benefit small firms more than large ones. This is in line with earlier research findings. One study found that a heavy regulatory burden—measured by the share of management time spent dealing with regulations or inspections—can stunt the growth of small firms.[12] Another found that in general there is a significant relationship between entrepreneurial activity and indicators of the quality of the legal and regulatory environment and governance.[13] The finding that good business regulations in areas such as those measured by *Doing Business* benefit small firms more than large ones is an important one—since small firms account for the largest shares of job creation and the highest growth in sales and employment in developing economies.[14]

HOW HAVE BUSINESS REGULATIONS CHANGED OVER THE PAST DECADE?

Among the more encouraging trends shown by *Doing Business* data over the past decade is the gradual improvement in economies' performance in the areas tracked by the indicators. Moreover, economies with the weakest regulatory institutions and the most complex and costly regulatory processes tend to focus on the areas where their regulatory performance is worse, slowly but steadily beginning to adopt some of the better practices seen among the best performers.

FIGURE 1.11 Strong convergence across economies since 2005

Averages by group



Note: Economies are ranked in quartiles by performance in 2005 on the indicator shown. The data refer to the 174 economies included in *Doing Business 2006* (2005). Fifteen economies were added in subsequent years.

Source: Doing Business database.

This process is leading to a convergence toward best practices. Here is an example: In 2005 the time to transfer property averaged 235 days among the economies ranking in the worst quartile on this indicator. Among the best 3 quartiles it averaged 42 days. Today that gap is substantially narrower. While the difference is still substantial at 62 days, it is considerably smaller than the 193 days in 2005 (figure 1.11). Similar trends can be seen in other indicators measuring the complexity and cost of regulatory processes.

WHAT IS IN THIS YEAR'S REPORT?

This year's report presents several case studies focusing on legal and regulatory features covered by new or expanded indicators being introduced this year or next year. One case study, on protecting minority investors, discusses the importance of corporate governance rules that are now being measured. Another discusses the importance of a strong legal framework for insolvency, also among the features being measured by new indicators—while a third examines the new components of the getting credit indicators. A fourth case study analyzes good practices in land administration systems that will be measured in *Doing Business 2016*.

These case studies provide new insights from the newly collected data. The case study on resolving insolvency shows, for example, that OECD high-income economies have the highest average score on the strength of insolvency framework index. And economies that have reformed their insolvency laws in the past several years score substantially higher on this index than economies with outdated insolvency provisions. This is important, because economies with better insolvency laws as measured by *Doing Business* tend to have more credit available to the private sector.

Other case studies in this year's report focus on good practices in the areas of business regulation covered. A case study on starting a business analyzes good practices in operating a company registry and the benefits of those practices. This case study discusses how company registries empower businesses to operate in the formal economy, allowing them to reap the benefits that come with formalization, and how online platforms for company incorporation make the process faster and cheaper. A case study on zoning regulations looks at good practices that can increase efficiency in construction permitting.

Another case study analyzes the time series of data on paying taxes with an emphasis on patterns before, during and after the global financial crisis. This case study shows that over the 9-year period ending in 2012, the global average total tax rate as measured by *Doing Business* fell by 9.1 percentage points, with the fastest rate of decline occurring in the years immediately following the crisis. The reduction was accompanied by a tangible improvement in the quality of tax administration in many economies thanks to their adoption of the latest technologies to facilitate online filing and payment.

The report also presents a case study on enforcing contracts that analyzes new data on freedom of contract. These new data will not be included in the enforcing contracts indicators; they were collected solely for research, with the aim of better understanding the link between contract enforcement and freedom of contract.

Finally, this year's report presents a summary of some of the research presented at the *Doing Business* research conference that took place in February 2014. This research used *Doing Business* data or studied areas relevant to the *Doing Business* indicators. *Doing Business* will continue to monitor progress in business regulation in economies around the world with the aim of keeping governments informed about good practices and enabling researchers to further our knowledge of how laws and regulations affect development.

NOTES

1. For information on the Independent Panel on *Doing Business*, see its website at http://www.dbrpanel.org/.
2. The distance to frontier score shows how far on average an economy is at a point in time from the best performance achieved by any economy on each *Doing Business* indicator since 2005 or the third year in which data for the indicator were collected. The measure is normalized to range between 0 and 100, with 100 representing the frontier.
3. The correlation between the distance to frontier score and the IDA Resource Allocation Index is 0.73. The relationship is significant at the 1% level after controlling for income per capita.
4. Regulatory changes making it more difficult to do business are subtracted from the number of those making it easier.
5. Branstetter and others 2013; Bruhn 2011; Kaplan, Piedra and Seira 2011; Monteiro and Assunção 2012.
6. Chang, Kaltani and Loayza 2009.
7. Dreher and Gassebner 2013.
8. Love, Martínez Pería and Singh 2013.
9. Dutz 2014.
10. Divanbeigi and Ramalho 2014.
11. These results take into account differences in performance due to country-level time-invariant characteristics and firms' sector, age and export status. The regression method used counts every firm equally even if the number of firms varies across countries.
12. Aterido, Hallward-Driemeier and Pages 2009.
13. Klapper and others 2010.
14. Ayyagari, Demirguc-Kunt and Maksimovic 2014.