

Doing Business 2015

Going Beyond Efficiency



COMPARING BUSINESS REGULATIONS FOR DOMESTIC FIRMS IN **189** ECONOMIES

A World Bank Group Flagship Report

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Contents

- v Foreword
- 1 Overview
- 15 About *Doing Business*
- 24 What is changing in *Doing Business*?
- 33 Reforming the business environment in 2013/14

Doing Business 2015 is the 12th 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 regulations and the protection of property rights that can be compared across 189 economies—from Afghanistan to Zimbabwe—and over time.

Doing Business measures regulations affecting 11 areas of the life of a business. Ten of these areas are included in this year's ranking on the ease of doing business: 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 this year's ranking.

Data in *Doing Business 2015* are current as of June 1, 2014. The indicators are used to analyze economic outcomes and identify what reforms of business regulation have worked, where and why.

This publication presents selected content from *Doing Business 2015*. The full report can be downloaded from the *Doing Business* website at <http://www.doingbusiness.org>.



Foreword

How to use *Doing Business* indicators and how not to

The public discourse on economic policy is overwhelmingly focused on fiscal measures, monetary interventions, welfare programs and other such highly visible instruments of government action. Thus when an economy does poorly, a disproportionate amount of our debate centers on whether or not it needs a fiscal stimulus, whether there should be liquidity easing or tightening, whether its welfare programs have been too profligate or too paltry and so on. What gets much less attention but is equally—and, in some situations, even more—important for an economy's success or failure is the nuts and bolts that hold the economy together and the plumbing that underlies the economy.

The laws that determine how easily a business can be started and closed, the efficiency with which contracts are enforced, the rules of administration pertaining to a variety of activities—such as getting permits for electricity and doing the paperwork for exports and imports—are all examples of the nuts and bolts that are rarely visible and in the limelight but play a critical role. Their malfunctioning can thwart an economy's progress and render the more visible policy instruments, such as good fiscal and monetary policies, less effective. Just as the Space Shuttle Challenger broke apart on takeoff from Cape Canaveral, Florida, on January 28, 1986, not because (as was later realized) something major had gone wrong but because a joint

held together by a circular nut called the O-ring had failed, an economy can be brought down or held back by the failure of its nuts and bolts. The World Bank Group's *Doing Business* report is an annual statement of the state of the nuts and bolts of economies around the world and, as such, is one of the most important compendiums of information and analysis of the basis of an economy's effective day-to-day functioning and development.

Creating an efficient and inclusive ethos for enterprise and business is in the interest of all societies. An economy with an efficient bureaucracy and rules of governance that facilitates entrepreneurship and creativity among individuals, and provides an enabling atmosphere for people to realize their full potential, can enhance living standards and promote growth and shared prosperity. It can also help in creating an environment in which standard macroeconomic policies are more effective and course through the economy more easily. After decades of debate there is now some convergence in economics about the roles of the market and the state. To leave everything to the free market can lead to major economic malfunction and elevated levels of poverty, and have us be silent witnesses to, for instance, discrimination against certain groups. Moreover, there is a logical mistake that underlies the market fundamentalist philosophy. To argue that individuals and private businesses should have all the freedom to pursue what they

wish and that government should not intervene overlooks the fact that government is nothing but the outcome of individual actions. Hence the edict is internally inconsistent. Fortunately, market fundamentalism has, for the most part, been relegated to the margins of serious policy discourse.

Turning to the other extreme, it is now widely recognized that to have the state try to do it all is a recipe for economic stagnation and cronyism. In any national economy there are too many decisions to be made, and too great a variety of skills and talents scattered through society, for any single authority to take effective charge.

It is true that government should intervene in the market to help the disadvantaged, to keep inequality within bounds, to provide public goods and to create correctives for market failures such as those stemming from externalities, information asymmetries and systemic human irrationalities.¹ But over and above these, government also has the critical responsibility to provide a nimble regulatory setup that enables ordinary people to put their skills and talents to the best possible use and facilitates the smooth and efficient functioning of businesses and markets.² It is this critical role of providing an enabling and facilitating ethos for individual talent and enterprise to flourish—which includes an awareness of where not to intervene and interfere—that the *Doing Business* report tries to measure. There is no unique way of doing this, and there are plenty of open conceptual questions one has to contend with. In brief, by its very nature *Doing Business* has all the ingredients of being both important and controversial, and it has lived up to both qualities in ample measure.

SWITCHING SIDES

As an independent researcher and, later, as Chief Economic Adviser to the Indian government, I used, criticized, valued and debated the *Doing Business* report, unaware that I would be at the World Bank one day and hence be shifted from the side of the consumer to that of the manufacturer of this product. This shift has given me a 360-degree view of *Doing Business* and, along with that, an awareness of its strengths and weaknesses, which others, luckier than I, may not have.

Its greatest strength is its transparency and adherence to clearly stated criteria. *Doing Business* takes the same set of hypothetical questions to 189 economies and collects answers to these. Thus, for instance, when checking on an economy's efficacy in "enforcing contracts," it measures the time, cost and procedures involved in resolving a hypothetical commercial lawsuit between 2 domestic firms through a local court. The dispute involves the breach of a sales contract worth twice the size of the income per capita of the economy or \$5,000, whichever is greater. This meticulous insistence on using the same standard everywhere gives *Doing Business* a remarkable comparability across economies.

However, this same strength is inevitably a source of some weaknesses. It means that, contrary to what some people believe, *Doing Business* is not based on sample surveys of firms. It is not feasible, at least not at this stage, to conduct such surveys in 189 economies. A lot of the *Doing Business* data are based on careful collection of de jure information on what an economy's laws and regulations require. Further, even

when, based on a study of one economy or a cluster of economies, some measure is found to be an important determinant of the ease of doing business, it may not be possible to put this measure to use unless a way is found to collect information on it from all 189 economies.

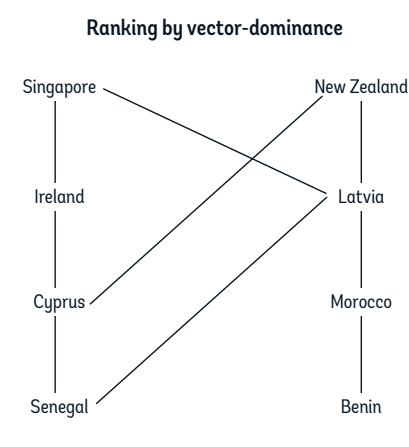
Nor does the fact that the same measures are collected for all economies automatically mean that they are the right measures. The same measure may be more apt for one economy and less so for another. As Ken Arrow once pointed out, the medieval English law under which no one was allowed to sleep on park benches applied to both paupers and aristocrats, but since the latter typically did not consider the use of park benches for napping, it was amply clear that this horizontally anonymous law was actually meant for only one class of people, namely the poor.³

Another problem arises from the fact that the overall ease of doing business ranking is an aggregation of 10 component indicators—measuring how easy it is (in the economy concerned) to start a business, deal with construction permits, get electricity, register property, get credit, pay taxes, trade across borders, enforce contracts and resolve insolvency and how strong the protections for minority investors are. Further, each of these 10 component indicators is itself an amalgam of several even more basic measures. The way all this is aggregated is by giving each basic measure the same weight to get to each component indicator, and then giving an equal weight to each of the 10 component indicators to get to the final score. Questions may indeed be asked about whether it is right to give the same weight to different indicators.⁴ Is an economy's speed at

1. There is evidence that human beings are not just frequently irrational but have certain systematic propensities to this, which can be and has been used to exploit individuals (Akerlof and Shiller 2009; Johnson 2009). By this same logic, these irrationalities can be used to promote development and growth. The next *World Development Report* (World Bank, forthcoming), to be published in December 2014, is devoted to this theme.
2. This convergent view can increasingly be found in microeconomics books, such as Bowles (2006); Basu (2010); and Ferguson (2013).
3. Arrow 1963.
4. There is a lot of research on the choice of weights when aggregating and on the algebra of ranking; see, for example, Sen (1977); Basu (1983); and Foster, McGillivray and Seth (2012).

giving an electricity connection to a new enterprise as important as its ability to enforce contracts efficiently? Further, the measures count both the time taken to get certain permits and clearances and also the number and intricacy of procedures. These also entail weights.

There is a way of doing away with weights, an approach that involves declaring one economy to be ranked above another only if it dominates the other in all 10 indicators. This is referred to as the criterion of vector-dominance, and its properties have been studied and are well understood. The trouble with this criterion is that it leads to incompleteness in rankings. For many pairs of economies it will not be possible to treat either as ranked above the other; nor can we, in such cases, declare the 2 to be equally good in terms of the ease of doing business. This is illustrated in the figure, which ranks a small cluster of economies by using vector-dominance in terms of the 10 indicators. A downward line between 2 economies represents dominance, and 2 economies that cannot be connected by a downward line cannot be compared with each other. Hence Singapore is



unequivocally ranked above Ireland, which is ranked above Cyprus and so on. Singapore is also ranked above Latvia. Similarly, New Zealand is ranked above Latvia, which is above Morocco and Benin, and so on. Singapore and New Zealand, which are this year's winner and runner-up in our ordinal ranking, cannot, however, be ranked in terms of vector-dominance; nor can we rank New Zealand and Ireland.⁵

It is true that the figure shows only a small segment of the quasi-order over the 189 economies; but even if we showed the full set, the picture would be populated with pairs of economies that cannot be ranked. That is indeed the disadvantage of vector-dominance. When it pronounces judgment, it does so with great authority, but it achieves this at the cost of total reticence over large domains.

What I suspected when I was a user of *Doing Business*, and now know, is that a significant number of the top 30 economies in the ease of doing business ranking come from a tradition where government has had quite a prominent presence in the economy, including through the laying out of rules to regulate different dimensions of the activities of the private sector. However, all these economies have an excellent performance on the *Doing Business* indicators and in other international data sets capturing various dimensions of competitiveness. The top-performing economies in the ease of doing business ranking are therefore not those with no regulation but those in which governments have managed to create rules that facilitate interactions in the marketplace without needlessly hindering the development of the private sector.⁶ Ultimately, *Doing*

Business is about smart regulations that only a well-functioning state can provide. The secret of success is to have the essential rules and regulations in place—but more importantly to have a good system of clearing decisions quickly and predictably, so that small and ordinary businesses do not feel harassed.

To get to an evaluation of this, one has to make choices, such as what to include and what to exclude and what weights to use. This has been done in creating the *Doing Business* measures, and effort is being made to improve on these. Excessive taxation, for instance, can dampen incentives and adversely affect an economy's functioning. But this does not mean that the lower the tax rates and collections, the better. There are economies where the tax revenue to GDP ratio is so low that it hampers the government's ability to regulate efficiently, invest in infrastructure and provide basic health and education services to the poor. With that in mind, the *Doing Business* team changed the indicator that used to treat a lower tax rate as better. Three years ago a threshold was set such that economies with tax rates below this threshold are not rewarded. This has reduced the bias in favor of economies that choose not to levy even a reasonable tax on private companies.

Our attention has been drawn to many critiques by the Independent Panel on *Doing Business*, chaired by Trevor Manuel, which submitted its report in 2013.⁷ Following this report a decision was made to set a 2-year target to improve the methodology of *Doing Business* without damaging the overall integrity of this valuable publication. The *Doing Business* team is in the midst

5. This example of vector-dominance is based only on the top 2 economies in this year's ease of doing business ranking. The figure was constructed as follows: First, all economies were sorted by their ranking, and the first economy for which all 10 indicator rankings are lower than those of Singapore was identified: Ireland. The process was then repeated for Ireland, and so on for all 189 economies. Second, the analysis was replicated, this time starting with New Zealand. Third, all pairs of economies in the figure were compared (for example, the horizontal line between Singapore and Latvia means that Singapore vector-dominates Latvia and all economies connected with a vertical line under Latvia).

6. See Besley and Burgess (2004).

7. The report by the Independent Panel on *Doing Business* is available on its website at <http://www.dbrpanel.org/>.

of such an exercise, and it is hoped that independent researchers, wherever in the world they happen to be, will join in the task of refining and improving this important document.

STRENGTHS AND WEAKNESSES

While the 2-year task of improving the methodology continues, it is worth being clear that there is no such thing as the best, all-encompassing indicator. As a consequence, responsibility rests as much with the users of the ease of doing business ranking as with its producers to make sure that it is a valuable instrument of policy. Controversy has often arisen from reading more into the ranking or indicator than what it actually captures. It has been pointed out, critically, **that there are economies that do poorly on the *Doing Business* indicators but that nevertheless get a lot of foreign direct investment (FDI) from global corporations.** These examples are usually nothing more than a reminder that an economy has many more aspects than the features that are tracked and measured by the *Doing Business* report. The flow of FDI into an economy is facilitated by having a better doing business ethos, true, but FDI flows can be thwarted by other policy weaknesses; and, conversely, an economy with poor performance on the *Doing Business* indicators may make up for it in other ways so as to attract large FDI inflows. The fact that there are examples of economies that do not do well on the *Doing Business* indicators but continue to receive flows of FDI shows that private corporations do not make this mistake; they will decide on the basis of a range of factors.

Another common criticism is implicit in the question, If economy *x* is growing fast, why does it not rank high on the ease of doing business? First, if

the ease of doing business ranking were constructed in such a way that it had a very high correlation with GDP or GDP growth, there would be little reason to have a new ranking. We would be able to get our result from looking at GDP or GDP growth tables. Second, this question is often rooted in the common mistake, already noted, of treating the ease of doing business ranking as an all-encompassing measure of an economy's goodness. It is not. An economy can do poorly on *Doing Business* indicators but do well in macroeconomic policy or social welfare interventions. In the end, *Doing Business* measures a slender segment of the complex organism that any modern economy is. It attempts to capture a segment that is representative of other general features of the economy (and effort will be made to improve on this), but the fact remains that an economy can undo the goodness or badness of its performance on *Doing Business* indicators through other policies.

Moreover, economic efficiency is not the only measure by which we evaluate an economy's performance.⁸ Most of us value greater equality among people; the ease of doing business ranking is not meant to measure success on that scale. We value better health, better education, literature and culture; the ease of doing business ranking is not meant to capture these either. It is a mistake to treat this as a criticism of the ease of doing business ranking; it is simply a reminder that life is a many-splendored thing, and the ***Doing Business* report tries to capture one aspect of the good life.** The need is to resurrect that once-popular expression, "ceteris paribus." Other things remaining the same, an economy should try to improve its score underlying the ease of doing business ranking.

In putting the ease of doing business ranking to use in crafting policy, it

is important to keep in mind these caveats, strengths and weaknesses. Ultimately, the *Doing Business* indicators are meant to simply hold up a mirror to economies. A poor score should alert a government that it ought to examine its regulatory structure. On the basis of this it may decide to change some regulatory features and policies in ways that may not even directly affect its ease of doing business ranking but nevertheless improve the economy's performance. If this happens, and there is some evidence that it does, the *Doing Business* report would be serving its purpose. There are governments that attract a lot of talent into their bureaucracy but nevertheless do not have an efficient administration because the bureaucrats get trapped in their arcane rules of engagement. This is a report that can be of great value to such governments. And it is gratifying that a large number of governments have put it precisely to such use.

Promoting a well-functioning, competitive private sector is a major undertaking for any government, especially for one with limited resources and technical capabilities. It requires long-term comprehensive policies targeting macroeconomic stability; investment in infrastructure, education and health; and the building of technological and entrepreneurial capacity. A well-functioning political system—one in which the government is perceived to be working in the public interest while managing scarce resources in a reasonably transparent way—plays a central role. Removing administrative barriers and strengthening laws that promote entrepreneurship and creativity—both of which are within the power of governments to do—can set an economy on the path to greater prosperity and development. There is compelling evidence that excessively burdensome regulations can lead to large informal and less-productive sectors, less entrepreneurship and lower rates of employment and growth.

8. See Stiglitz, Sen and Fitoussi (2009); World Bank (2014a); and World Bank and IMF (2014).

CARDINALITY, ORDINALITY, RANKINGS AND RATINGS

One feature of the report that has received a lot of attention is its use of rankings. Ultimately, what the report does is to provide a table with a simple ordinal ranking of all 189 economies. After a lot of debate and discussion a decision was made to stay with the overall ranking, even though other, cardinal features of the exercise are at the same time being strengthened, as will be explained shortly.

It was in 2005 that the World Bank Group management decided to start ranking economies on the ease of doing business because it recognized the value of benchmarking exercises in generating interest among policy makers in reform.⁹ In an area that had received little attention from policy makers before the publication of the first *Doing Business* report, the rankings proved to be an important catalyst in raising the profile of regulation as a central element of a good investment climate. The rankings also proved effective in moving issues of performance and progress in business regulation to the center of policy discussions in a large number of economies. By capturing complex, multidimensional realities in a simple quantified framework, the rankings also helped to facilitate communication between different stakeholders and made possible meaningful international comparisons of the regulatory performance of economies, contributing, along the way, to increasing the accountability of political actors.

Members of the business community, for instance, could point to the existence of less complex and costly procedures or better-functioning institutions in other economies in the region in their dealings with governments,

which, by and large, had been slow to see their own *Doing Business* data in an international perspective. The overall ranking has value in addition to the topic-level indicators. The overall ranking combines a wealth of information that serves as a summary measure and allows governments to benchmark their economy's performance against that of other economies.

Notwithstanding the important benefits of rankings, the disaggregated data are also a clear strength of the project. Policy makers frequently become aware of the measurements through the ranking but then use the disaggregated data to shape reform programs. The data identify best practices globally and identify where each economy's practices hold inefficiencies or inadequate legal protections. For example, governments find it useful to compare their own procedures lists for firm start-up with those of other economies that pursue the same goals with less procedural complexity and at lower cost.

Having noted these advantages, we would be remiss if we did not point to some of the disadvantages of ordinal ranking. When an economy is given a rank, there is no sense of how far it is from its closest contenders. Consider an economy that is ranked at 95, with no other economy at that rank. We know that its closest contenders are at 94 and 96 and this would be unchanged no matter how far or how near those other economies are. This means that when economies are very densely packed, a small improvement can lead to a vast jump in ranking and a small worsening can lead to a large drop in ranking. To see this, consider an extreme case where 50 economies have exactly the same scores on the indicators underlying the ease of doing business ranking and so each of them has the same ranking, say 95. If one

economy does slightly worse, with no change in the performance of all the other economies, it will drop not to 96 in the ranking but to 145. On an ordinal ranking scale this will show up as a seemingly alarming drop, but nothing alarming has actually happened. Similarly, if an economy is far behind the economy ahead of it, it can make a large improvement and yet show no gain in the ordinal rank measure.

In response to this, there are 2 comments in defense of the methods used. First, the *Doing Business* team worked over the past 3 years to deepen the indices by adding a "distance to frontier" measure. This measure has certain cardinal qualities because it tries to capture the actual distance each economy has to go to reach the frontier of "best performance." This puts on display how each economy performs not only vis-à-vis other economies but also in absolute terms. Further, the distance to frontier score can shed light on the progress made by individual economies over time in comparison with their own regulatory practices of previous years. This makes it transparent that an economy can make actual progress and still lose ground in the ranking when neighboring economies do even better. Recent *Doing Business* reports have given increasing attention to long-term trends in the data—with an emphasis on economies' performance with respect to their past performance—to balance the short-term perspective that the ranking provides. Further, for reasons of transparency *Doing Business* makes the disaggregated data available on its website. This allows users to construct alternative rankings with any set of weights they may wish to attach to individual indicators.

Second, the ranking issue crops up for both the final aggregate score and the basic indicators that go into the

9. See World Bank (2006).

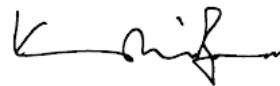
creation of this final score. Here, the use of ordinal ranks is more problematic because they get absorbed in the final measure and economies making small improvements or regressions in densely packed areas can have a disproportionate gain or loss in ranking. This information being buried in the basic indicators makes it harder to discern. For this reason from this year we decided to switch from using the ordinal ranks of basic indicators to using absolute or cardinal measures before they are aggregated in the final ranking. There are also other options. One is to switch from rankings to ratings, which would have economies appear in clusters that are then ranked. But this method too comes with its own share of strengths and weaknesses.

CONCLUSION

The economy is a complex machine, beyond the full comprehension of any person. Over the years meticulous research, collection of increasingly sophisticated data and the advance of economic theory and innovative modeling have given us a better understanding of this machine. Nevertheless, one has to approach economic policy making with a certain humility, keeping an eye on the fact that what we, all this time, took to be an established feature of economics may be open to question. In brief, the discipline is evolving and we must be willing participants in the process.

The World Bank Group's *Doing Business* initiative is no exception to this. It tries

to track and measure one of the most important features of an economy—the ease with which it is possible to do business, trade and exchange. It provides governments, administrators and researchers with valuable data and analysis to promote a better regulatory framework for development, job creation and growth. There are economies that have benefited greatly from this and it is hoped that *Doing Business* will continue to provide this service. At the same time, as this foreword has argued, we are aware that we still have some distance to go in our understanding of an economy. For that reason we welcome research and criticism and hope that this will lead to a better *Doing Business* report. This year's report is a small, first step in that direction.



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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.

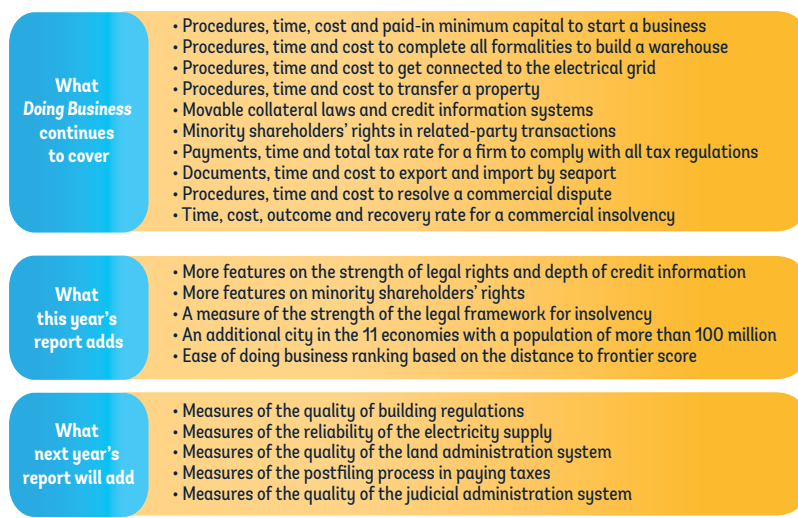
The distance to frontier score also provides an important complement to the ease of doing business ranking in analyzing changes in an economy's business regulatory environment. An example at the global level suggests why: the time series of the distance to frontier scores overwhelmingly shows improvements 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



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.

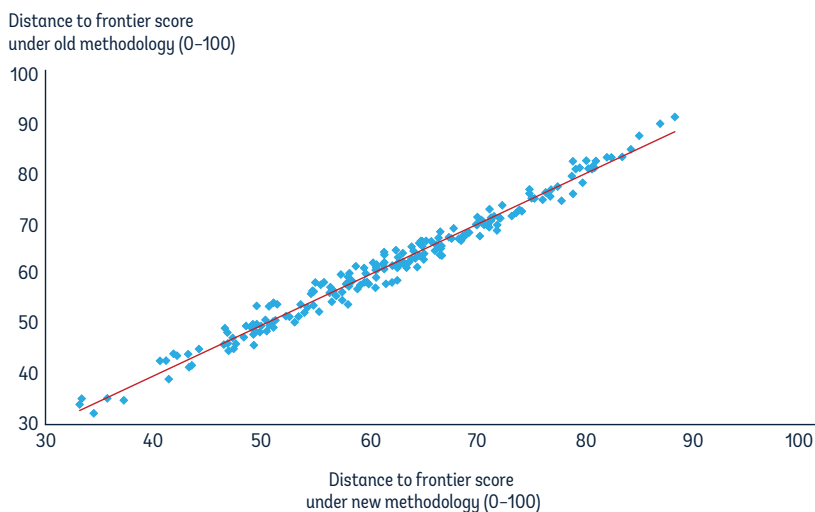
The 20 economies at the top of the ease of doing business ranking perform well not only on the *Doing Business* indicators but also in other international data sets capturing dimensions of competitiveness. The economies performing best in the *Doing Business* rankings therefore are not those with no 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

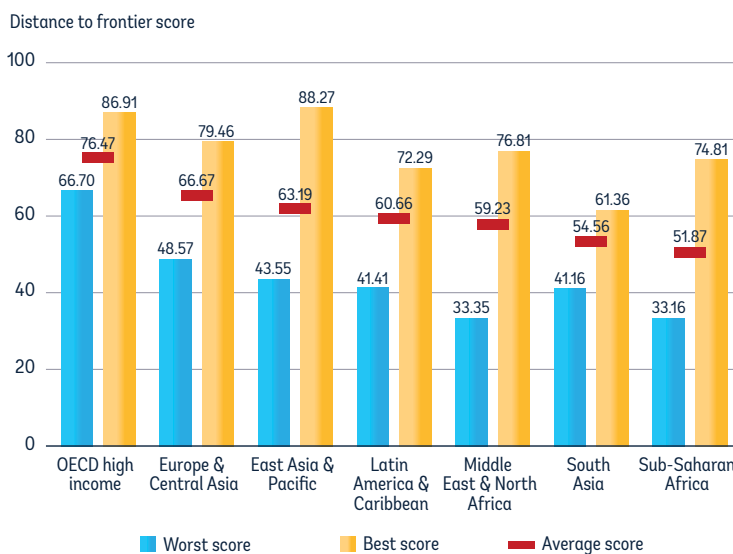
FIGURE 1.2 Distance to frontier scores remain similar under the new methodology



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

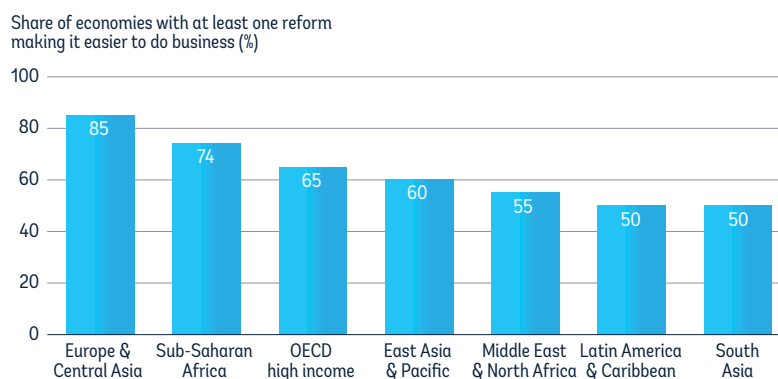
Caribbean and South Asia remain the 2 regions with the smallest share of economies implementing regulatory reforms as captured by *Doing Business*.

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

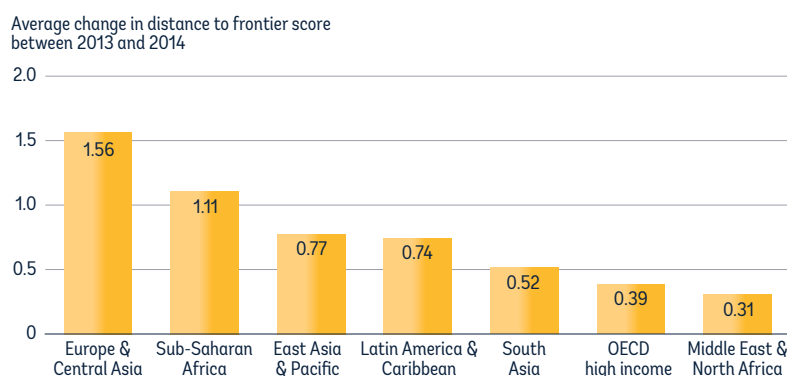
not mean that these economies have exemplary business regulations; instead, it shows that thanks to serious efforts in regulatory reform in the past year, they made the biggest advances toward the frontier in regulatory practice (figure 1.5). Many of the 10 top improvers still face many challenges on 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 . . .



. . . and the biggest average improvement in distance to frontier scores



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 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.

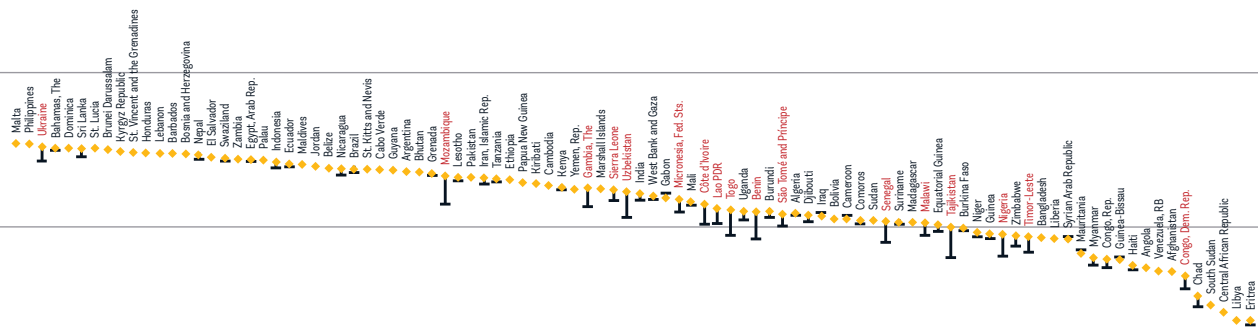
Eight of the 10 top improvers carried out reforms making it easier to start a business, while 7 implemented reforms making it easier to get credit. Some of these changes were inspired by transnational initiatives. One such initiative was the revision by the Council of Ministers of the Organization for 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

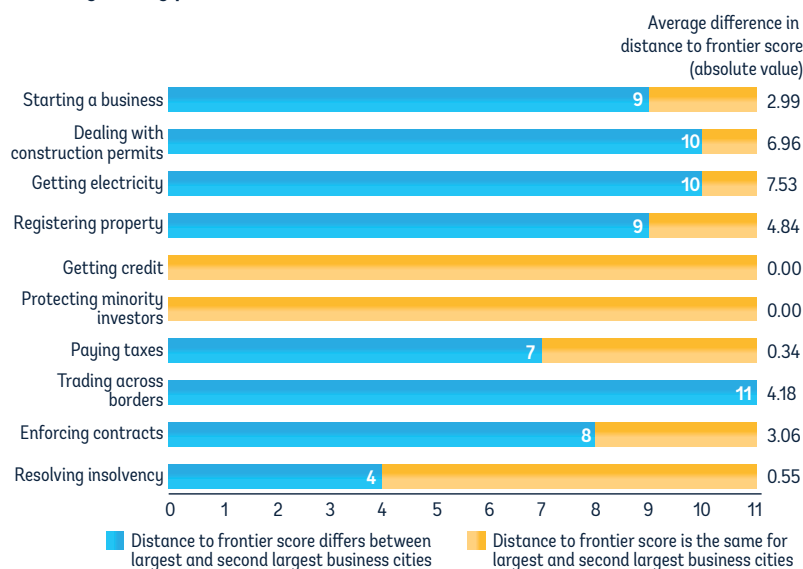
4 topics—starting a business, getting electricity, paying taxes and trading across borders. Overall, the differences between cities within the same economy are very small, as shown in figure 3.2 in the chapter on what is changing in *Doing Business*.

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.

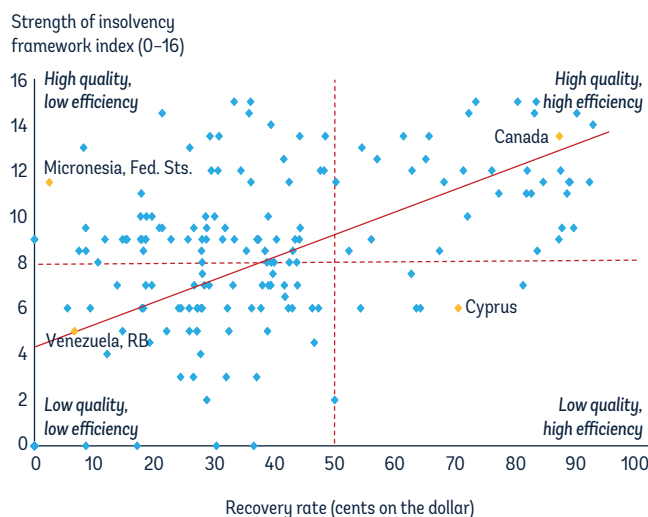
credit and protecting minority investors indicator sets. Next year's report will add measures of regulatory quality to the indicator sets for dealing with construction permits, getting electricity, registering property, paying taxes and enforcing contracts.

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).

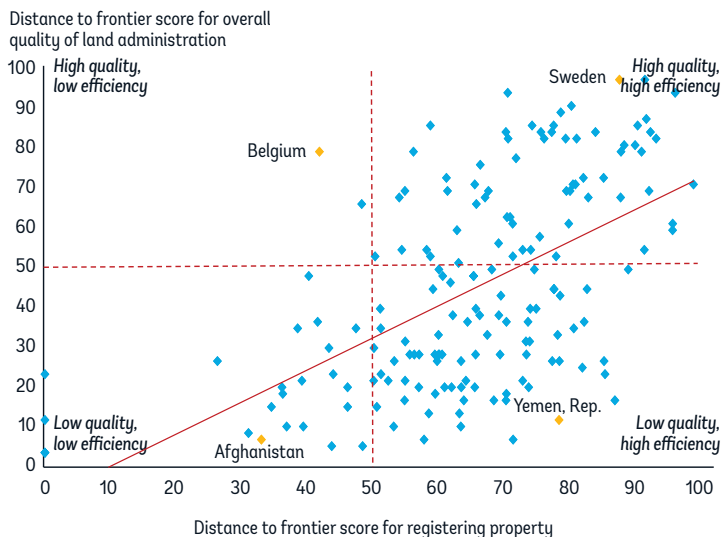
The new indicator under development measures the reliability, transparency and geographic coverage of land administration systems as well as elements of land dispute resolution. The indicator focuses on such aspects as whether the land registry and mapping system (cadastre) have adequate infrastructure 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.

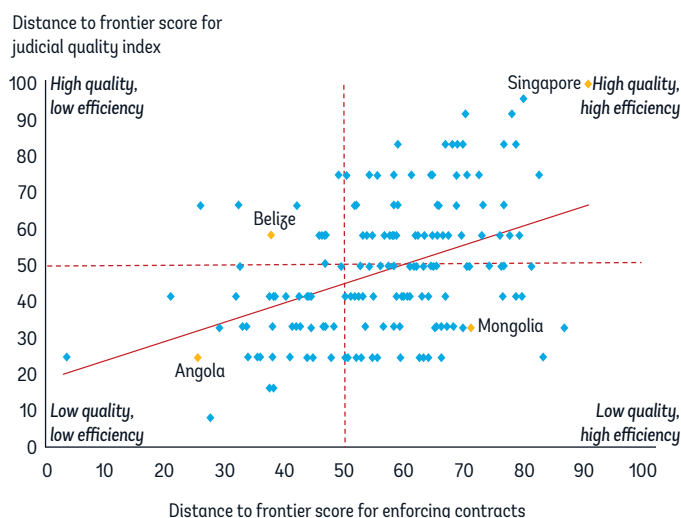
Efforts are ongoing for other Doing Business topics as well. Preliminary data for a new measure of judicial quality and court infrastructure show a clear positive link between efficiency and quality in the area of enforcing contracts.

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:

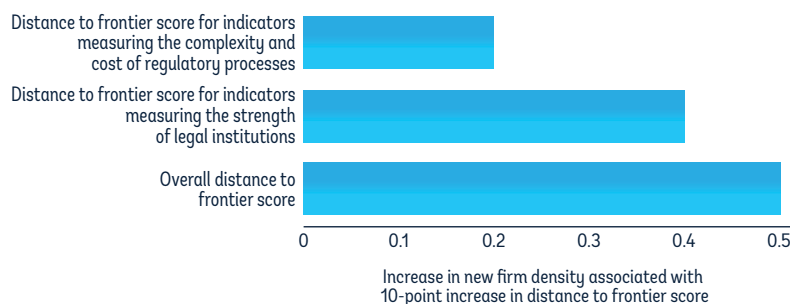
- Reforms simplifying business registration lead to more firm creation.⁵
- Increasing trade openness has greater effects on growth where labor markets are more flexible.⁶

- 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

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.

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.

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

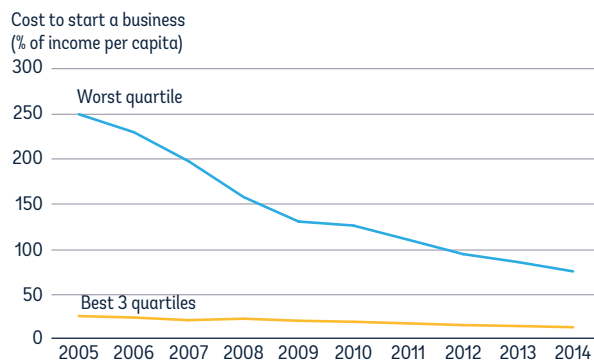
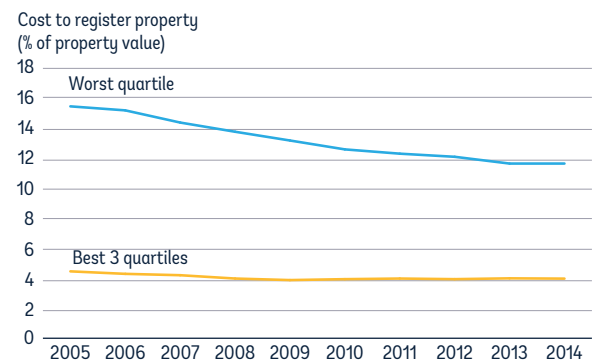
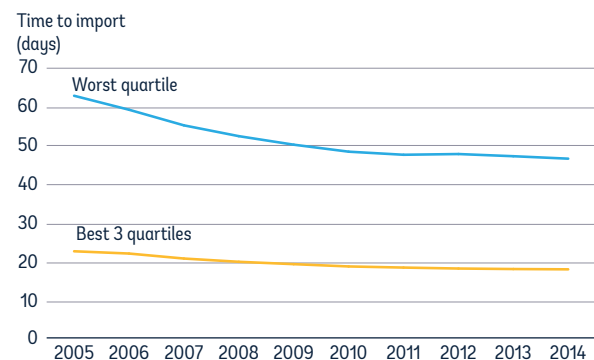
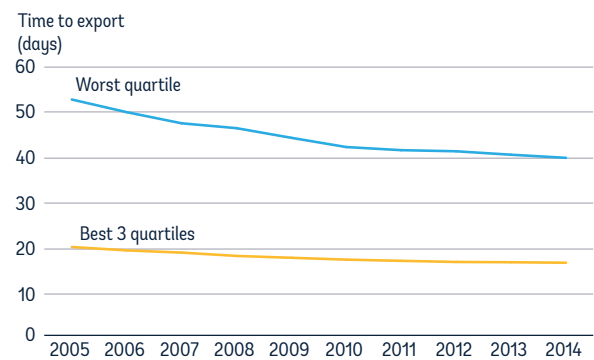
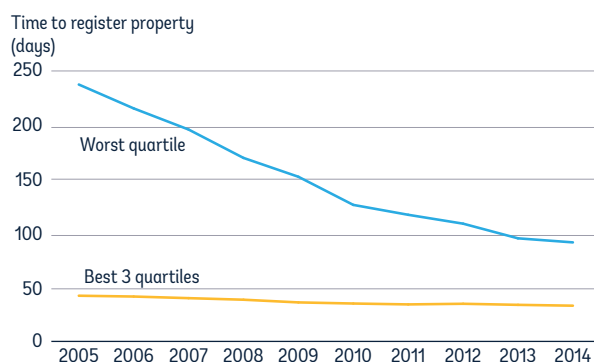
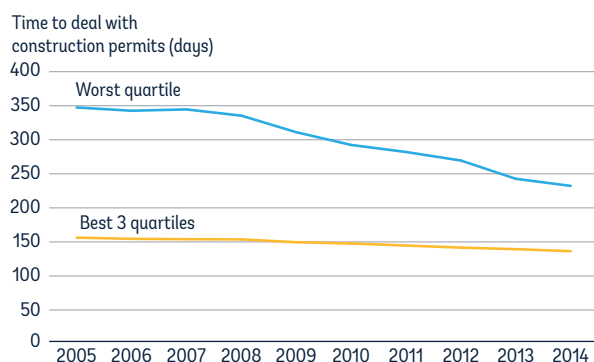
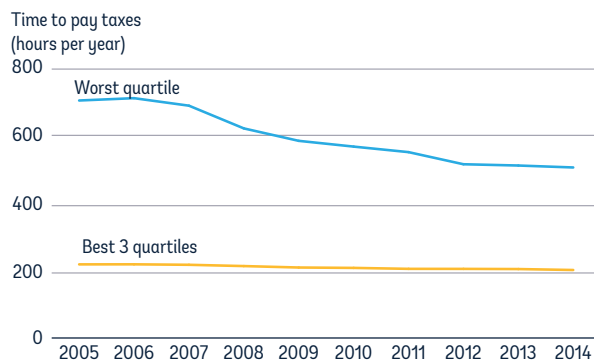
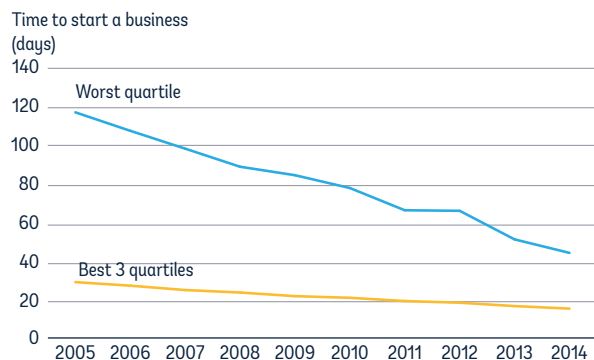
of small firms.¹² Another found that in general there is a significant relationship between entrepreneurial activity and indicators of the quality of the legal and regulatory environment and governance.¹³ The finding that good business regulations in areas such as those measured by *Doing Business* benefit 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. Dutž 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, Demircug-Kunt and Maksimovic 2014.



About Doing Business

Economic activity requires sensible rules that encourage firm start-up and growth and avoid creating distortions in the marketplace. *Doing Business* measures the rules and regulations that can help the private sector thrive—because without a dynamic private sector, no economy can provide a good, and sustainable, standard of living for people. *Doing Business* promotes rules that establish and clarify property rights, minimize the cost of resolving disputes, increase the predictability of economic interactions and provide contractual partners with core protections against abuse.

The *Doing Business* data highlight the important role of the government and government policies in the day-to-day life of domestic small and medium-size firms. The objective is to encourage regulations that are designed to be efficient, accessible to all who use them and simple in their implementation. Where regulation is burdensome and competition limited, success tends to depend on whom one knows. But where regulation is efficient, transparent and implemented in a simple way, it becomes easier for aspiring entrepreneurs to compete on an equal footing and to innovate and expand. In this sense *Doing Business* values good rules as a key to social inclusion. 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 creating more jobs.

Doing Business was designed with 2 main types of users in mind: policy makers and researchers.¹ *Doing Business* is a tool that governments can use to design sound policies for the creation of firms and jobs. But this tool should not be used in isolation. *Doing Business* provides a rich opportunity for benchmarking by capturing key dimensions of regulatory regimes. Nevertheless, the *Doing Business* data are limited in scope and should be complemented with other sources of information.

Doing Business is also an important source of information for researchers. It provides a unique data set that enables analysis aimed at better understanding the role of business regulation in economic development. This year's report discusses the results of some of this work in the chapter on highlights from the *Doing Business* research conference. *Doing Business 2014* presented a detailed summary of recent research on the effects of business regulation in the areas measured by *Doing Business*.

WHAT DOES DOING BUSINESS MEASURE?

Doing Business captures several important dimensions of the regulatory environment as it applies to local firms. It provides quantitative measures of regulations for starting a business, dealing with construction permits,

- *Doing Business* measures business regulations that affect domestic small and medium-size firms in 11 areas across 189 economies. Ten of these 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—are included in the distance to frontier score and ease of doing business ranking. *Doing Business* also measures labor market regulation, which is not included in these 2 measures.
- *Doing Business* does not capture other aspects of the business environment, such as security, market size, macroeconomic stability and the prevalence of bribery and corruption.
- The *Doing Business* methodology is based on standardized case scenarios in the largest business city of each economy. In addition, for 11 economies a second city has been added this year.
- *Doing Business* relies on 4 main sources of information: the relevant laws and regulations, *Doing Business* respondents, the governments of the economies covered and the World Bank Group regional staff.
- Governments use *Doing Business* as a source of objective data providing unique insights into good practices worldwide. Many *Doing Business* indicators are “actionable”—though depending on the context, they may not always be “action-worthy.”

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. This year's report does not present rankings of economies on the labor market regulation indicators or include the topic in the aggregate distance to frontier score or ranking on the ease of doing business. It does present the data for these indicators.

Doing Business provides 2 main types of indicators: those that broadly measure the complexity and cost of regulatory processes and those that measure the strength of legal institutions (table 2.1). Indicators of the first type promote efficiency in transactions handled by the government, such as in the process to register a transfer of property. A simpler and less costly process results in better performance on the indicators and, if all else is constant, a more favorable ranking on the ease of doing business. These indicators are being expanded to also include components on the quality of regulation.

Indicators of the second type reflect better institutions for private sector development, such as well-functioning courts and credit information systems. Accordingly, some of these indicators give a higher score for better and more developed regulation, as the protecting minority investors indicators do for stricter disclosure requirements for related-party transactions. Three sets of these indicators—getting credit, protecting minority investors and resolving insolvency—have been expanded for this year's report to further focus on the strength of legal institutions (for details on the expansion of the scope of indicator sets, see the chapter on what is changing in *Doing Business*).

How the indicators are selected

The choice of the 11 sets of *Doing Business* indicators has been guided by economic research and firm-level data, particularly data from the World Bank Enterprise Surveys.² These surveys provide data highlighting the main obstacles to business activity as reported by entrepreneurs in more than 120 economies. For example, among the factors that the surveys have identified

as important to businesses have been access to finance and access to electricity—inspiring the design of the *Doing Business* indicators on getting credit and getting electricity.

The design of the *Doing Business* indicators has also been informed by theoretical insights gleaned from extensive research and the literature on the role of institutions in enabling economic development. In addition, the background papers developing the methodology for each of the *Doing Business* indicator sets have established the importance of the rules and regulations that *Doing Business* measures for such economic outcomes as trade volumes, foreign direct investment, market capitalization in stock exchanges and private credit as a percentage of GDP.³

Two aggregate measures

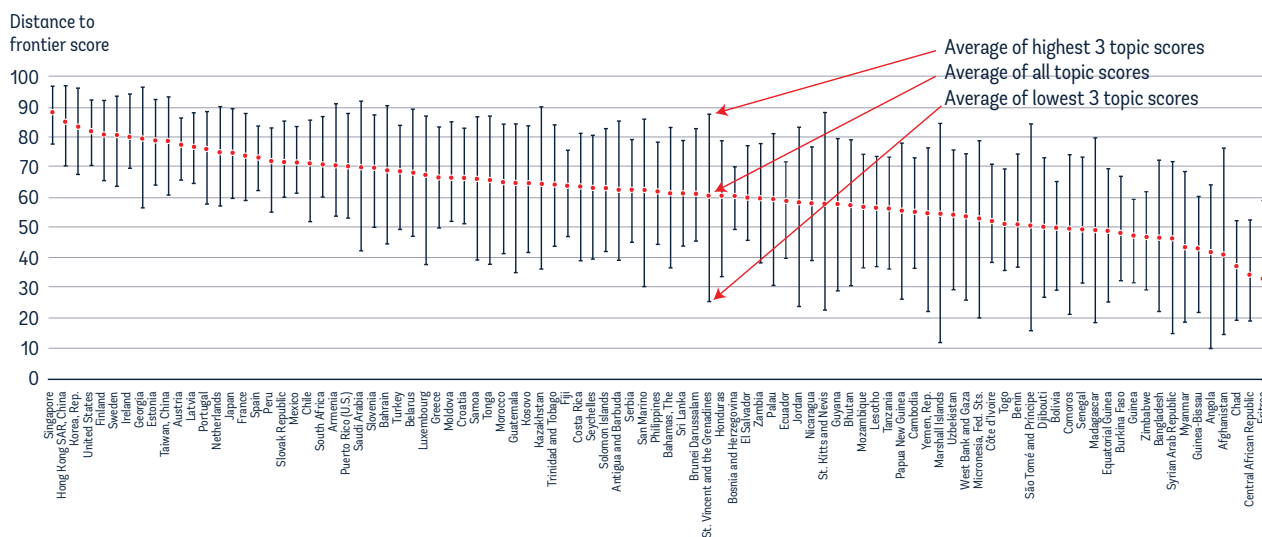
Doing Business presents data both for individual indicators and for 2 aggregate measures—the distance to frontier score and the ease of doing business ranking—to provide different perspectives on the data. The distance to frontier score aids in assessing the absolute level of regulatory performance and how it improves over time. This measure shows the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005 or the third year in which data for the indicator were collected. This allows users both to see the gap between a particular economy's performance and the best performance at any point in time and to assess the absolute change in the economy's regulatory environment over time as measured by *Doing Business*.

This year, for the first time, the ease of doing business ranking is based on the distance to frontier score. The ranking complements the distance to frontier score by providing information about an economy's performance in business

TABLE 2.1 What *Doing Business* measures—11 areas of business regulation

| Complexity and cost of regulatory processes | |
|---|--|
| Starting a business | Procedures, time, cost and paid-in minimum capital to start a limited liability company |
| Dealing with construction permits | Procedures, time and cost to complete all formalities to build a warehouse |
| Getting electricity | Procedures, time and cost to get connected to the electrical grid |
| Registering property | Procedures, time and cost to transfer a property |
| Paying taxes | Payments, time and total tax rate for a firm to comply with all tax regulations |
| Trading across borders | Documents, time and cost to export and import by seaport |
| Strength of legal institutions | |
| Getting credit | Movable collateral laws and credit information systems |
| Protecting minority investors | Minority shareholders' rights in related-party transactions and in corporate governance |
| Enforcing contracts | Procedures, time and cost to resolve a commercial dispute |
| Resolving insolvency | Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the insolvency legal framework |
| Labor market regulation | Flexibility in employment regulation, benefits for workers and labor dispute resolution |

FIGURE 2.1 An economy's regulatory environment may be more business-friendly in some areas than in others



Note: The distance to frontier scores reflected are those for the 10 *Doing Business* topics included in this year's aggregate distance to frontier score. Figure is illustrative only; it does not include all 189 economies covered by this year's report. See the country tables for the distance to frontier score for each *Doing Business* topic for all economies. Source: *Doing Business* database.

regulation relative to the performance of other economies as measured by *Doing Business*.

For each topic covered and for all topics, *Doing Business* uses a simple averaging approach for weighting component indicators, calculating rankings and determining the distance to frontier score.⁴ To test the robustness of this approach, other approaches were explored, including using principal components and unobserved components.⁵ These 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 189 economies, the simplest method is used: weighting all topics equally and, within each topic, giving equal weight to each of the topic components.⁶

Each topic covered by *Doing Business* relates to a different aspect of the regulatory environment. The distance to frontier scores and rankings of each economy vary, often substantially, across topics, indicating that strong performance by an economy in one

area of regulation can coexist with weak performance in another. A quick way to assess the variability of an economy's regulatory performance is to look at its distance to frontier scores across topics (see the country tables). Croatia, for example, has an overall distance to frontier score of 66.53. Its distance to frontier score is 85.43 for starting a business, 82.92 for paying taxes and 80.05 for getting electricity. At the same time, it has a score of 44.97 for dealing with construction permits, 55.00 for getting credit and 53.92 for resolving insolvency (figure 2.1).

WHAT DOES DOING BUSINESS NOT MEASURE?

Doing Business does not cover many important policy areas, and even within the areas it covers its scope is narrow (table 2.2). *Doing Business* does not measure the full range of factors, policies and institutions that affect the quality of an economy's business environment or its national competitiveness. It does not, for example, capture aspects of security, the prevalence of

bribery and corruption, market size, macroeconomic stability, 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 trading across borders indicators, for example, capture the documents, time and cost required for the logistical process of exporting and importing

TABLE 2.2 What *Doing Business* does not cover

Examples of areas not covered

- Security
- Prevalence of bribery and corruption
- Market size
- Macroeconomic stability
- State of the financial system
- Level of training and skills of the labor force

Examples of aspects not included within the areas covered

- In getting electricity, the reliability of electricity supply
- In getting credit, the availability of credit for firms
- In trading across borders, export or import tariffs and subsidies

containerized goods by seaport, but they do not measure the cost of the sea transport or of tariffs or capture any aspects relating to international trade agreements. Thus through these indicators *Doing Business* provides a narrow perspective on the 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 (except to the extent that the trading across borders indicators indirectly measure the quality of ports and roads). Similarly, the indicators on starting a business or protecting minority investors do not cover all aspects of commercial legislation. And the getting electricity indicators do not currently address the quality of the electricity supply or the rate of electrification.

Doing Business does not attempt to measure all costs and benefits of a particular law or regulation to society as a whole. For example, the paying taxes indicators measure the total tax rate, which, in isolation, is a cost to businesses. 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. These objectives can differ across economies. *Doing Business* provides a starting point for this discussion and should be used in conjunction with other data sources.

WHAT ARE THE STRENGTHS AND LIMITATIONS OF THE METHODOLOGY?

The *Doing Business* methodology was designed to be an easily replicable way to benchmark business regulation. It

has advantages and limitations that should be understood when using the data (table 2.3).

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—the subject of the *Doing Business* case study—in the largest business city of the economy. The reality is that business regulations and their enforcement may differ within a country, particularly in federal states and large economies. But gathering data for every relevant jurisdiction in each of the 189 economies covered by *Doing Business* would be infeasible. In addition, while variation is inevitable across different locations, the variation is unlikely to deliver significantly different results commensurate with the scale of the effort. Nevertheless, where policy makers are interested in generating data at the local level, beyond the largest business city, *Doing Business* has complemented its global indicators with subnational studies (box 2.1).

And this year, for the first time, *Doing Business* has extended its coverage to the second largest business city in economies with a population of more than 100 million.

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 would be prohibitively costly in many countries. GDP estimates are also subject to a number of limiting assumptions, which have not prevented their widespread use.

Some *Doing Business* topics include complex areas, and so it is important that the standardized cases are carefully defined. For example, the standardized case scenario usually involves a limited liability company or its legal equivalent. The considerations

TABLE 2.3 Advantages and limitations of the *Doing Business* methodology

| Feature | Advantages | Limitations |
|---|--|--|
| Use of standardized case scenarios | Makes the data comparable across economies and the methodology transparent | Reduces the scope of the data and means that only regulatory reforms in the areas measured can be systematically tracked |
| Focus on largest business city ^a | Makes the data collection manageable (cost-effective) and the data comparable | Reduces the representativeness of the data for an economy if there are significant differences across locations |
| Focus on domestic and formal sector | Keeps the attention on where regulations are relevant and firms are most productive—the formal sector | Fails to reflect reality for the informal sector—important where that is large—or for foreign firms where they face a different set of constraints |
| Reliance on expert respondents | Ensures that the data reflect the knowledge of those with the most experience in conducting the types of transactions measured | Results in indicators that do not measure the variation in experiences among entrepreneurs |
| Focus on the law | Makes the indicators “actionable”—because the law is what policy makers can change | Fails to reflect the reality that where systematic compliance with the law is lacking, regulatory changes may not achieve the full desired results |

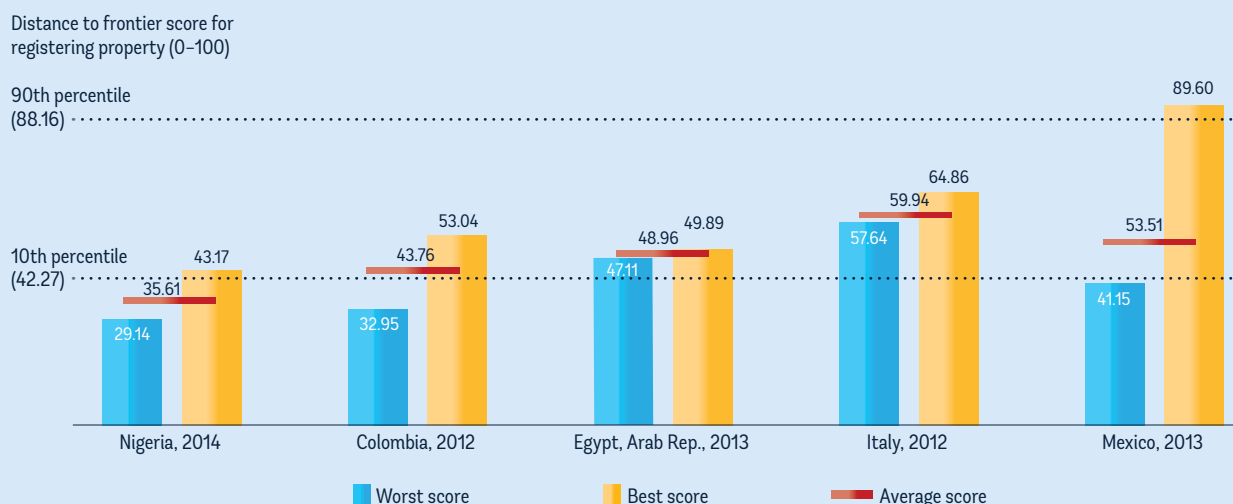
a. In economies with a population of more than 100 million, *Doing Business* covers business regulation in both the largest business city and the second largest one.

BOX 2.1 Comparing regulations at the local level: subnational *Doing Business* studies

The subnational *Doing Business* studies expand the *Doing Business* analysis beyond the largest business city of an economy. They measure variation in regulations or in the implementation of national laws across locations within an economy (as in Nigeria) or a region (as in Central America). Projects are undertaken at the request of governments.

Data collected by subnational reports over the past 2 years show that there can be substantial variation within an economy. In Mexico in 2013, for example, transferring property took as few as 2 days in Colima and as many as 74 in Mexico City. Indeed, within the same economy one can find cities that perform as well as economies ranking in the top 20 on the ease of registering property and cities that perform as poorly as economies ranking in the bottom 40 on that indicator (see figure). Despite these large differences across cities of varied sizes, the differences between the largest and the second largest business cities in an economy tend to be small, as discussed in the overview.

Different locations, different regulatory processes, same economy



Note: The average score shown for each economy is based on all locations covered by the data: 36 cities in Nigeria, 23 cities in Colombia, 15 locations and governorates in the Arab Republic of Egypt, 13 cities in Italy and 31 states and Mexico City in Mexico. The worst score shown for each economy is that of the location with the most complex process for transferring property, and the best score that of the location with the most efficient one. The 10th and 90th percentile values are based on economy-level scores for the 189 economies covered by *Doing Business*.

Source: Subnational *Doing Business* database.

The subnational *Doing Business* studies create disaggregated data on business regulations. But they go beyond a data collection exercise. They have proved to be strong motivators for regulatory reform at the city level:

- The data produced are comparable across locations within the economy and internationally, enabling locations to benchmark their results both locally and globally. Comparisons of locations that are within the same economy and therefore share the same legal and regulatory framework can be revealing: local officials find it hard to explain why doing business is more difficult in their jurisdiction than in a neighboring one.
- Pointing out good practices that exist in some locations but not others within an economy helps policy makers recognize the potential for replicating these good practices. This can prompt discussions of regulatory reform across different levels of government, providing opportunities for local governments and agencies to learn from one another and resulting in local ownership and capacity building.

Since 2005 subnational reports have covered 367 cities in 55 economies, including Brazil, China, India, Indonesia, Morocco and Pakistan. This year subnational studies were completed in the Arab Republic of Egypt, Mexico and Nigeria. Ongoing studies include those in Central America and the Dominican Republic (covering 22 cities and 10 ports across 7 countries), Poland (18 cities), South Africa (9 cities and 4 ports) and Spain (19 cities and 5 ports).

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

in defining this assumption are twofold. First, private limited liability companies are, empirically, the most prevalent business form for firms with more than one owner 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.

Another assumption underlying the *Doing Business* indicators is 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 trying to find out. Alternatively, they may deliberately avoid compliance altogether—by not registering for social security, for example. Where regulation is particularly onerous, firms may opt for bribery and other informal arrangements intended to bypass the rules—an aspect that helps explain differences between the *de jure* data provided by *Doing Business* and the *de facto* insights offered by World Bank Enterprise Surveys. In economies with particularly burdensome regulation, levels of informality tend to be higher. 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.⁷ 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 regulatory reform.

Rules and regulations fall under the direct control of policy makers—and they are often where policy makers start when intending to change the set of incentives under which businesses operate. *Doing Business* not only shows where problems

exist in the regulatory framework; it also points to specific regulations or regulatory procedures that may lend themselves to reform. And its quantitative measures of business regulations enable research on how specific regulations affect firm behavior and economic outcomes.

HOW ARE THE DATA COLLECTED?

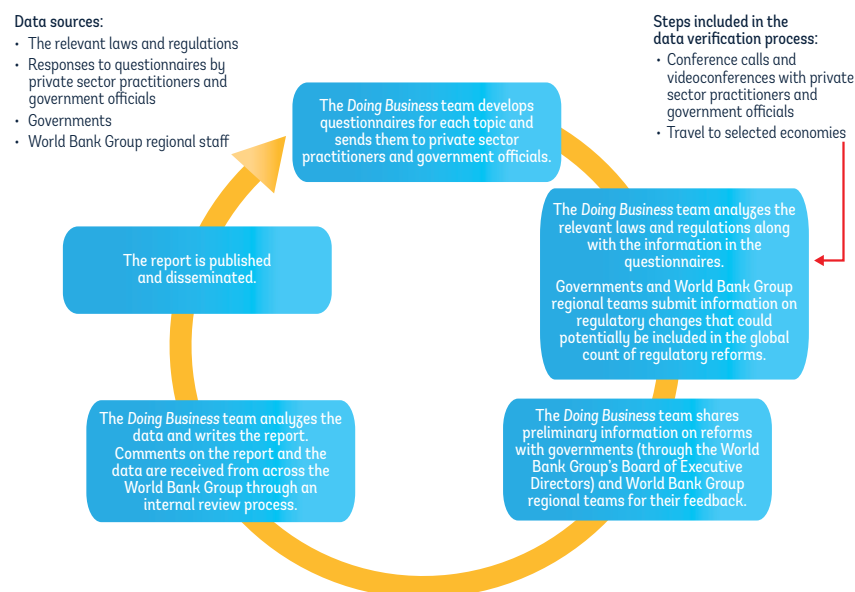
The *Doing Business* data are based on domestic laws and regulations as well as administrative requirements. The data cover 189 economies—including small economies and some of the poorest economies, for which little or no data are available in other data sets. The data are collected through several rounds of interaction with expert respondents (both private sector practitioners and government officials)—through responses to questionnaires, conference calls, written correspondence and visits by the team. *Doing Business* relies on 4 main sources of information: the relevant laws and regulations, *Doing Business* respondents, the governments of the economies covered and the World Bank Group regional staff (figure 2.2). For a detailed explanation of

the *Doing Business* methodology, see the data notes.

Relevant laws and regulations

Most of the *Doing Business* indicators are based on laws and regulations. Indeed, more than two-thirds of the data embedded in the *Doing Business* indicators are based on a reading of the law. Besides filling out written questionnaires, *Doing Business* respondents provide references to the relevant laws, regulations and fee schedules. The *Doing Business* team collects the texts of the relevant laws and regulations and checks questionnaire responses for accuracy. For example, the team will examine the commercial code to confirm the paid-in minimum capital requirement, look at the legislation to see whether borrowers have the right to access their data at the credit bureau and read the tax code to find applicable tax rates. (*Doing Business* makes these and other types of laws available on the *Doing Business* law library website.)⁸ Because of the data checking and quality assurance, having large samples of respondents is not necessary. In principle, the role of the contributors is largely advisory—helping the *Doing Business* team in finding and understanding the

FIGURE 2.2 How *Doing Business* collects and verifies the data



laws and regulations—and there are quickly diminishing returns to an expanded number of contributors.

For the rest of the data the team conducts extensive consultations with multiple contributors to minimize measurement error. 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. When sources indicate different estimates, the time indicators reported in *Doing Business* represent the median values of several responses given under the assumptions of the standardized case.

Doing Business respondents

Over the past 12 years more than 30,000 professionals in 189 economies have assisted in providing the data that inform the *Doing Business* indicators.⁹ This year's report draws on the inputs of more than 10,700 professionals.¹⁰ Table 14.2 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 set.

Respondents are professionals who routinely administer or advise on the legal and regulatory requirements in the specific areas covered by *Doing Business*, selected on the basis of their expertise in these areas. Because of the focus on legal and regulatory arrangements, most of the respondents are legal professionals such as lawyers, judges or notaries. In addition, officials of the credit registry or bureau complete the credit information questionnaire. Freight forwarders, accountants, architects, engineers and other professionals answer the questionnaires related to trading across borders, paying taxes and dealing with construction permits.

Certain public officials (such as registrars from the company or property registry) also provide information that is incorporated into the indicators.

The *Doing Business* approach has 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 or a narrow range that reflects the majority of applicable cases.

Doing Business does not survey firms for 2 main reasons. The first relates to the frequency with which firms engage in the transactions captured by the indicators, which is generally low. For example, a firm goes through the start-up process once in its existence, while an incorporation lawyer may carry out 10 such transactions each month. The incorporation lawyers and other experts providing information to *Doing Business* are therefore better able to assess the process of starting a business than are individual firms. They also have access to the latest regulations and practices, while a firm may have faced a different set of rules when incorporating years before. The second reason is that the *Doing Business* questionnaires mostly gather legal information, which firms are unlikely to be fully familiar with. For example, few firms will know about all the many legal procedures involved in resolving a commercial dispute through the courts, even if some of them have gone through the process themselves. But a litigation lawyer would have no difficulty in providing the requested information on all the procedures.

Governments and World Bank Group regional staff

After receiving the completed questionnaires from the *Doing Business* respondents, verifying the information against the law and conducting follow-up inquiries to ensure that all relevant information is captured, the *Doing Business* team shares the preliminary reform descriptions with governments through the Board of Executive Directors and regional staff of the World Bank Group. Through this process government authorities and local World Bank Group staff in the 189 economies covered can alert the team about, for example, regulatory reforms not picked up by the respondents or additional achievements of regulatory reforms already captured in the database. In response to such feedback, the *Doing Business* team turns to the local private sector experts for further consultation and, as needed, corroboration. In addition, the team responds formally to the comments of governments or regional staff and provides explanations of the scoring decisions.

Data adjustments

Information on data corrections is provided in the data notes and on the *Doing Business* website. A transparent complaint procedure allows anyone to challenge the data. From November 2013 to October 2014 the team received and responded to more than 160 queries on the data. If changes in data are confirmed, they are immediately reflected on the website.

HOW DO GOVERNMENTS USE THE DATA?

Over the past decade governments have increasingly focused on reforming business regulation as one way of maintaining competitiveness in an increasingly globalized economy. *Doing Business* provides one source of actionable, objective data that give useful insights into good practices worldwide. Indeed, since 2003 governments have implemented more

than 600 regulatory reforms that have been informed by *Doing Business*.¹¹

One venue for sharing success stories in business regulation reform is 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 to share their experiences (figure 2.3).

In addition, reform committees within governments frequently use the *Doing Business* indicators as one input to inform their programs for improving the business environment. More than 50 economies have formed such committees—typically at the interministerial level or reporting directly to the president or the prime minister—to ensure the coordination of efforts across agencies. In East and South Asia they include Indonesia, the Republic of Korea, Malaysia, the Philippines and Sri Lanka. In the Middle East and North Africa: Algeria, Kuwait, Morocco, Saudi Arabia and the United Arab Emirates.

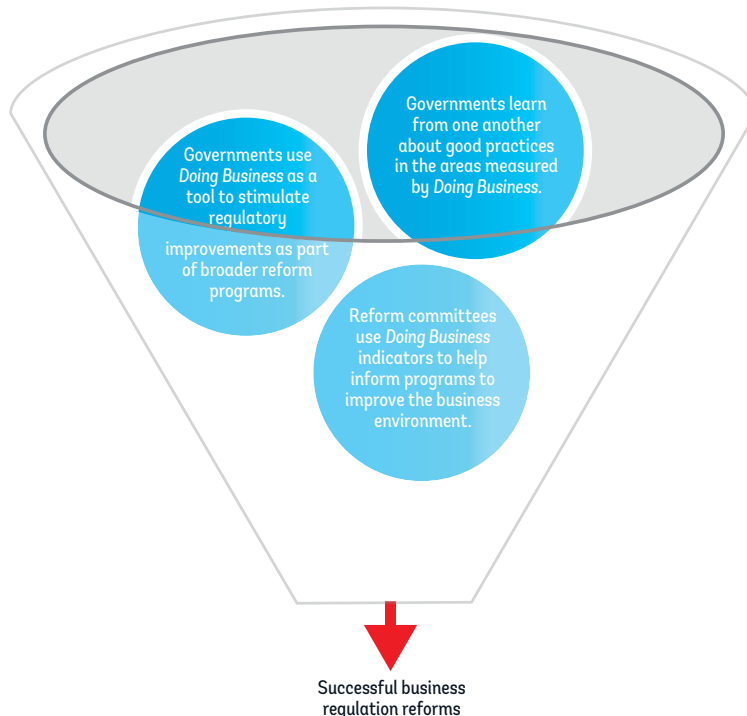
In Europe and Central Asia: Azerbaijan, Croatia, the Czech Republic, Georgia, Kazakhstan, Kosovo, the Kyrgyz Republic, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Poland, the Russian Federation, Tajikistan, Ukraine, the United Kingdom and Uzbekistan. In Sub-Saharan Africa: Botswana, Burundi, the Central African Republic, the Comoros, the Democratic Republic of Congo, the Republic of Congo, Côte d'Ivoire, Guinea, Kenya, Liberia, Malawi, Mali, Nigeria, Rwanda, Sierra Leone, Togo and Zambia. And in Latin America: Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Mexico, Panama and Peru.

One reason behind the use of *Doing Business* indicators by governments is that many of these indicators can be considered “actionable,” measuring aspects over which governments have direct control. For example, governments can reduce (or even eliminate) the minimum capital requirement for new firms. They can invest in company

and property registries to increase the efficiency of these public agencies. They can improve the efficiency of tax administration by adopting the latest technologies to facilitate the preparation, filing and payment of taxes by businesses. And they can undertake court reforms to shorten delays in the enforcement of contracts. On the other hand, some *Doing Business* indicators capture costs that involve private sector participants, such as lawyers, notaries, architects, electricians or freight forwarders—costs over which governments may have little influence in the short run.

While many *Doing Business* indicators are actionable, this does not necessarily mean that they are always “action-worthy” in a particular context.¹² Business regulation reforms are one element of a strategy aimed at improving competitiveness and establishing a solid foundation for sustainable economic growth. There are many other important goals to pursue—such as effective management of public finances, adequate attention to education and training, adoption of the latest technologies to boost economic productivity and the quality of public services, and appropriate regard for air and water quality to safeguard people’s health. Governments have to decide what set of priorities best fits the needs they face. To say that governments should work toward a sensible set of rules for private sector activity does not suggest that doing so should come at the expense of other worthy economic and social goals.

FIGURE 2.3 How governments use *Doing Business* as a policy tool



NOTES

1. The focus of the *Doing Business* indicators remains the regulatory regime faced by domestic firms engaging in economic activity in the largest business city of an economy. *Doing Business* was not initially designed to inform decisions by foreign investors, though investors may in practice find the data useful as a proxy for the quality of the national investment climate. Analysis done in the World Bank Group’s Global Indicators Group has shown that countries that have sensible rules for domestic economic activity also tend to

- have good rules for the activities of foreign subsidiaries engaged in the local economy.
2. For more on the World Bank Enterprise Surveys, see the website at <http://www.enterprisesurveys.org>.
 3. These papers are available on the *Doing Business* website at <http://www.doingbusiness.org/methodology>.
 4. For getting credit, indicators are weighted proportionally, according to their contribution to the total score, with a weight of 60% assigned to the strength of legal rights index and 40% to the depth of credit information index. In this way each point included in these indices has the same value independent of the component it belongs to. Indicators for all other topics are assigned equal weights.
 5. A technical note on the different aggregation and weighting methods is available on the *Doing Business* website at <http://www.doingbusiness.org/methodology>.
 6. For more details, see the chapter on the distance to frontier and ease of doing business ranking.
 7. Schneider 2005; La Porta and Shleifer 2008.
 8. <http://www.doingbusiness.org/law-library>.
 9. The annual data collection exercise is an update of the database. The *Doing Business* team and the contributors examine the extent to which the regulatory framework has changed in ways relevant for the features captured by the indicators. The data collection process should therefore be seen as adding each year to an existing stock of knowledge reflected in the previous year's report, not as creating an entirely new data set.
 10. While about 10,700 contributors provided data for this year's report, many of them completed a questionnaire for more than one *Doing Business* indicator set. Indeed, the total number of contributions received for this year's report is more than 13,500, which represents a true measure of the inputs received. The average number of contributions per indicator set and economy is just over 6. For more details, see <http://www.doingbusiness.org/contributors/doing-business>.
 11. These are reforms for which *Doing Business* is aware that information provided by the *Doing Business* report was used in shaping the reform agenda.
 12. One study using *Doing Business* indicators illustrates the difficulties in using highly disaggregated indicators to identify reform priorities (Kraay and Tawara 2011).



What is changing in Doing Business?

- This year's report and *Doing Business 2016* are introducing changes in 8 of the 10 *Doing Business* indicator sets: dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, enforcing contracts and resolving insolvency.
- The improvements have 2 main goals. The first is to expand the focus of indicator sets that primarily measure the efficiency of a transaction or service to also cover aspects of the quality of that service. The second is to expand the focus of indicator sets that already measure some aspects of the quality of regulation to include recent good practices in the areas covered.
- Starting this year the ease of doing business ranking is based on the distance to frontier score.
- For the 11 economies with a population of more than 100 million, a second city has been added to the sample this year.

Good practices in business regulation have evolved since the *Doing Business* indicators were first developed in 2003. Some changes have come, for example, as new technologies have transformed the ways governments interact with citizens and the business community. The new developments have created a need to expand and update the *Doing Business* methodology. While the *Doing Business* report has introduced changes in methodology of varying degrees every year, this year's report and *Doing Business 2016* are implementing more substantive improvements. Most were inspired by recommendations of the Independent Panel on *Doing Business*

and by broader consultations that have taken place over the years with World Bank Group staff, country governments and the private sector.¹

AN OVERVIEW OF THE CHANGES

The improvements are in 3 areas: revision of the calculation of the ease of doing business ranking, expansion of the sample of cities covered in large economies and a broadening of the scope of indicator sets (table 3.1). Some of the changes imply a break in the data series and will compromise the comparability of data over time. For getting credit, for example, the changes in the strength of legal rights index are substantial enough to prevent comparability over time. But for all *Doing Business* topics, including getting credit, the data have been back-calculated 1 year to allow for at least 2 comparable years of data.² Moreover, since 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 data series are available on the *Doing Business* website.

TABLE 3.1 Timeline of the changes in *Doing Business*

Changes in *Doing Business 2015*

- Revision of the ranking calculation
- Expansion of the city sample in large economies
- Broadening of the scope of indicator sets
 - Getting credit
 - Protecting minority investors
 - Resolving insolvency

Changes in *Doing Business 2016*

- Broadening of the scope of indicator sets
 - Registering property
 - Dealing with construction permits
 - Getting electricity
 - Paying taxes
 - Enforcing contracts

Note: No changes are planned for starting a business or trading across borders. Minor updates in methodology are introduced in this year's report for dealing with construction permits, paying taxes and enforcing contracts, as explained in the data notes.

Revising the ranking calculation

Doing Business continues to publish the ease of doing business ranking. But beginning in this year's report the ranking is based on the distance to frontier score rather than on the

percentile rank. 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. For indices, such as the strength of legal rights index (which ranges from 0 to 12), the frontier is set at the best theoretical score (in this case 12) even if no economy attains it. For most of the other indicators the frontier is set at the lowest number that occurs in practice—for example, 1 for the number of procedures to start a business. The exceptions are the recovery rate in insolvency, for which the frontier is set at the highest value, and the total tax rate, for which a threshold has been established.

The ranking based on the distance to frontier score is highly correlated with that based on the percentile rank. But the distance to frontier score captures more information than the percentile rank because it shows not only how economies are ordered but also how far apart they are. Economies with greater variance across topics are more likely

to have a less favorable position in the distance to frontier ranking than in the percentile ranking. Those with relatively better performance in topics with a compressed distribution, such as starting a business, also tend to place lower in the distance to frontier ranking.

Two country examples can better illustrate the practical implications of the change in the ranking calculation. In *Doing Business 2014* Côte d’Ivoire had rankings between 115 and 173 for 8 of the 10 topics, and rankings of 88 and 95 for the other 2. This resulted in a ranking of 167 on the overall ease of doing business. If the ranking had been computed using the distance to frontier score rather than the percentile rank, Côte d’Ivoire’s ranking, based on the same data, would have been 153 (figure 3.1). This higher ranking would have been due mainly to the low variation in Côte d’Ivoire’s performance across topics.

For Mongolia the opposite would have happened. In *Doing Business 2014* Mongolia’s topic rankings ranged between 22 and 181. Mongolia ranked in the top 40 for 4 of the topics, and in

the bottom 60 for 3. Its overall ranking based on the percentile rank method was 76. If the ranking had been computed using the distance to frontier method instead, Mongolia’s ranking would have been 94. This lower ranking would have been attributable to the high variation in Mongolia’s performance across topics.

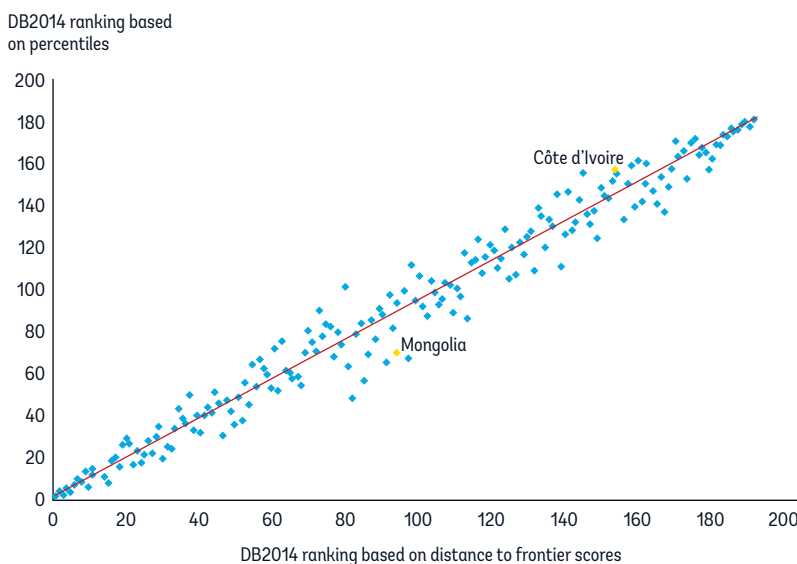
How do the 2 countries fare in this year’s ease of doing business ranking? Côte d’Ivoire stands at 147 in the ranking, 6 places higher than in last year’s ranking when based on the new methodology—and Mongolia stands at 72, 22 places higher. The changes in ranking are due to other changes in methodology, changes in the data for these 2 countries and changes in the data for other economies. (For more details, see the chapter on the distance to frontier and ease of doing business ranking.)

Expanding the sample of cities covered

Since its inception *Doing Business* has focused on the largest business city of each economy, taking it as a proxy for the entire national territory. Depending on the indicator and the size of the economy, this focus can be a limitation in extrapolating results to the economy level. As the subnational *Doing Business* reports have shown, the indicators measuring the procedures, time and cost to complete a transaction (such as the dealing with construction permits indicators) tend to show more variation across cities within an economy than do indicators capturing features of the law applicable nationwide (such as the protecting minority investors or resolving insolvency indicators). Moreover, this limitation is likely to be more important in larger economies—where the largest business city is likely to represent a smaller share of the overall economy—and in those with greater regional diversity in business practices.

To address this issue, this year *Doing Business* has expanded its sample of

FIGURE 3.1 How much difference is there between the 2 calculations of the ease of doing business ranking?



Note: The 45-degree line shows where the rankings based on percentiles and the rankings based on distance to frontier scores are equal. The correlation between the 2 rankings is 0.99.

Source: *Doing Business* database.

cities in large economies, defined as those with a population of more than 100 million. Today there are 11 such economies in the world: Bangladesh, Brazil, China, India, Indonesia, Japan, Mexico, Nigeria, Pakistan, the Russian Federation and the United States. For each of these economies the sample now includes the second largest business city. Population size was used as the criterion for selecting these economies for 2 main reasons: First, economies with a large population, because of their size and diversity, are more likely to have differences in performance on indicators. Second, the larger the population in an economy, the larger the number of people who can benefit from improvements in business regulation.

Within each economy the second city was also selected on the basis of population size. Another criterion was that the second city must be in a different metropolitan area than the largest business city.³ Other criteria were also considered, such as contribution to total GDP or level of city dynamism, but these were not used in the end because of the lack of comparable data across the economies.

What do the data for the new cities in the sample show about the differences within economies? Overall, the differences are small. In 7 of the 11 economies the difference in the distance to frontier score between the 2 cities is less than 1 point (figure 3.2).

Broadening the scope of indicator sets

Eight of the 10 sets of *Doing Business* indicators are being improved over a 2-year period. The improvements are aimed at addressing 2 main concerns. First, in indicator sets that primarily measure the efficiency of a transaction or service provided by a government agency (such as registering property), the focus is being expanded to also cover aspects of the quality of that service. And second, in indicator sets

that already measure some aspects of the quality of regulation (such as protecting minority investors), the focus is being expanded to include additional good practices in the areas covered.

INTRODUCING NEW MEASURES OF QUALITY

Efficiency in regulatory transactions is important. Many research papers have highlighted the positive effect of improvements in areas measured by *Doing Business* on such economic outcomes as firm or job creation.⁴ But increasing efficiency may have little impact if the service provided is of poor quality. For example, the ability to complete property transfers quickly and inexpensively is important, but if the land records are unreliable or other features of the property rights regime are flawed, the property title will have little value.

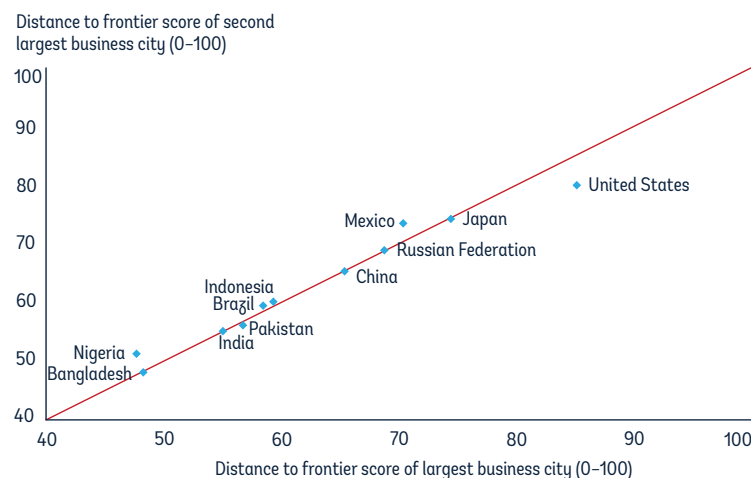
There is a well-established literature linking regulatory quality with economic outcomes at the macro level. An important part of this literature stems from the Worldwide Governance Indicators, which measure regulatory

quality as 1 of 6 pillars of governance. This literature has produced important findings: Better governance (including better regulatory quality) leads to higher income per capita.⁵ Better governance is linked to faster economic growth.⁶ And a heavier regulatory burden reduces economic growth and increases macroeconomic volatility.⁷

While this research uses data far from the areas into which *Doing Business* indicators are expanding, these findings are encouraging and they suggest a need to better understand what aspects of regulatory quality drive these results. Measures of the quality of business regulation at the micro level are lacking. By expanding its focus on regulatory quality, *Doing Business* will open a new area for research. The aim is to help develop greater understanding of the importance of the quality of business regulation and its link to regulatory efficiency and economic outcomes.

Six indicator sets are being expanded to measure regulatory quality: dealing with construction permits, getting electricity, registering property, paying taxes, enforcing contracts and

FIGURE 3.2 Small differences in the distance to frontier score between cities in the same economy



Note: The 45-degree line shows where the scores for the 2 cities are equal.
Source: *Doing Business* database.

resolving insolvency. The new indicators being introduced emphasize the importance of having the right type of regulations. In general, economies with less regulation or none at all will have a lower score on the new indicators.

Changes in Doing Business 2015

Resolving insolvency

The resolving insolvency indicators measure the time, cost and outcome of an insolvency process for a case study firm and the recovery rate for its secured creditors. The indicators have focused mainly on the efficiency of the bankruptcy court system. But by measuring the outcome of the process—that is, whether the firm continues to operate or not—the indicators were already assessing some dimensions of the quality of insolvency regulation. In this year's report the indicators go further, by explicitly measuring the strength of the legal framework for insolvency.

A new indicator, the strength of insolvency framework index, measures good practices in accordance with the World Bank's *Principles for Effective Insolvency and Creditor/Debtor Regimes* and the United Nations Commission on International Trade Law's (UNCITRAL) *Legislative Guide on Insolvency Law*.⁸ The index measures 4 aspects. First, it records whether debtors and creditors have the right to commence liquidation proceedings, reorganization proceedings or both and what standard is used to determine whether a debtor is insolvent. Second, it tests what happens to the contracts of a debtor during insolvency proceedings, whether post-commencement financing is permitted and what level of priority is granted to post-commencement creditors. Third, it tests the approval process for a reorganization plan as well as certain substantive requirements for the plan. Finally, it tests the extent to which creditors can participate in insolvency proceedings as a group as well as the rights of individual creditors to litigate

and appeal decisions that affect their rights.

Under the old methodology the distance to frontier score for resolving insolvency was based only on the recovery rate, which measures the cents on the dollar recouped by secured creditors through insolvency proceedings. Under the new methodology the score is based on both the recovery rate and the strength of insolvency framework index. A comparison of the 2 scores shows that many economies have insolvency laws that follow some good practices even if they may face challenges in implementing those laws (figure 3.3). For example, Brazil receives a score of 13 (of 16 possible points) on the strength of insolvency framework index while its recovery rate is only 25.8% of the estate value. Economies not performing well on the new indicator are those that use foreclosure to resolve the insolvency in the *Doing Business* standardized case. Foreclosure is normally a relatively fast process, typically resulting in a higher recovery rate—but it ignores unsecured creditors, something that would not be true of a well-designed insolvency

framework. In Maldives, for example, secured creditors should expect to recover 49.9% of the estate value, but the country receives a score of only 2 on the strength of insolvency framework index.

For more details on the new index and its scoring methodology, see the data notes. For a complete discussion of the new indicator and an analysis of the data, see the case study on resolving insolvency.

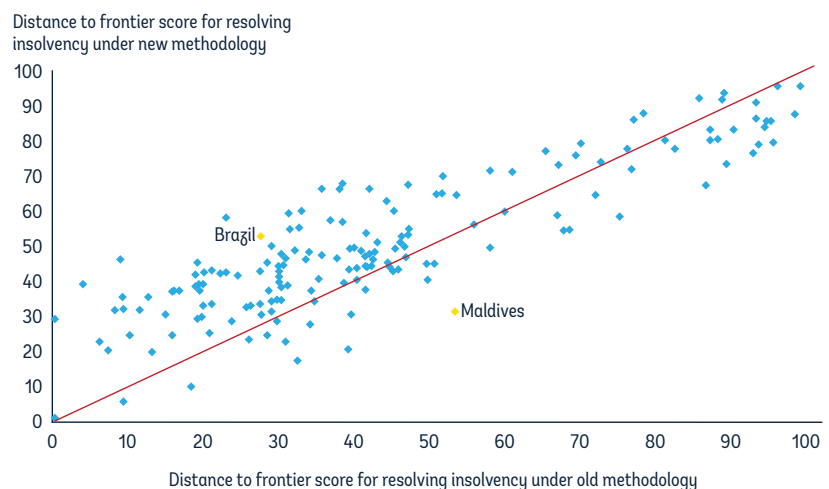
Changes in Doing Business 2016

Registering property

The registering property indicator set has measured the procedures, time and cost to transfer a property from one company to another since 2004. Starting in *Doing Business 2016*, the indicator set will be expanded to cover the reliability, transparency and geographic coverage of land administration systems as well as dispute resolution for land issues.

Ensuring the reliability of information on property titles is a crucial function of land administration systems. To

FIGURE 3.3 Comparing distance to frontier scores for resolving insolvency under the old and new methodologies



Note: Under the new methodology the distance to frontier score for resolving insolvency includes both the recovery rate and the strength of insolvency framework index; under the old one it includes only the recovery rate. Both scores are based on this year's data. The 45-degree line shows where the scores under the old and new methodologies are equal. The correlation between the 2 scores is 0.90.

Source: *Doing Business* database.

assess how well these systems are performing this function, a new indicator will record the practices used for collecting, recording, storing and processing information on land parcels and property titles. Specific attention will be given to practices that support data reliability, such as unifying, standardizing and synchronizing records across different sources and putting in place the necessary infrastructure to reduce the risk of errors.

The indicator will also provide information allowing comparison of transparency standards for land administration systems around the world. New data will record what land-related information is made publicly available, whether procedures and property transactions are transparent and whether information on fees for public services is easily accessible.

In addition, the indicator will measure the coverage levels attained by land registration and mapping systems. A land administration system that does not cover the economy's entire territory is unable to guarantee the protection of property rights in areas that lack institutionalized information on land. The result is a dual system, with both formal and informal land markets. To be enforceable, all transactions need to be publicly verified and authenticated at the registry.

Finally, the indicator will allow comparative analysis of land dispute resolution across economies. It will measure the accessibility of conflict resolution mechanisms and the extent of liability for the entities or agents recording land transactions. For a complete discussion of the new indicator and a preliminary data analysis, see the case study on registering property.

Dealing with construction permits

The existing indicator set on dealing with construction permits measures

the procedures, time and cost to comply with the formalities to build a warehouse—including obtaining necessary licenses and permits, completing required notifications and inspections and obtaining utility connections. The indicator set will be expanded in *Doing Business 2016* to measure good practices in construction regulation (see figure 3.4 for some of the new aspects that will be added to the indicator set).

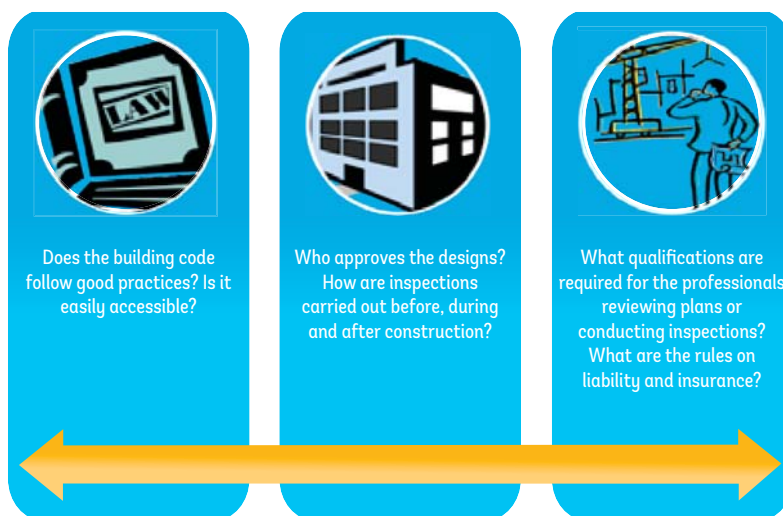
The changes will address important issues facing the building community. One is the need for clarity in the rules, to ensure that regulation of construction can fulfill the vital function of helping to protect the public from faulty building practices. Besides being clear, building rules also need to be adaptable, so that they can keep up with economic and technological change. To assess these characteristics, a new indicator on regulatory quality will examine how clearly the building code or building regulations specify the requirements for obtaining a building permit and how easily accessible the regulations are.

Beyond measuring the clarity and accessibility of regulations, the indicator will assess the effectiveness of

inspection systems. Good inspection systems are critical to ensuring public safety. They can ensure that buildings comply with proper safety standards, reducing the chances of structural faults. And requirements that technical experts review the proposed plans before construction even begins can reduce the risk of structural failures later on. The new indicator will cover quality control at 3 stages: before, during and after construction.

Measures of quality control before construction will look at 2 points: which entity is required to verify that the architectural plans and drawings comply with the building regulations and who makes up the team or committee that reviews and approves building permit applications at the permit-issuing agency. Measures of quality control during construction will examine 3 points: what types of mandatory inspections (if any) are required by law during construction; which agency is responsible for conducting these inspections; and whether inspections required by law are actually carried out (or, if not required by law, commonly occur in practice). Measures of quality control after construction will also examine 3 points: whether a final inspection is required by law to

FIGURE 3.4 What will be added to dealing with construction permits



verify that the building was built in accordance with the approved plans and the building regulations; which agency is responsible for conducting the final inspection; and whether the final inspection required by law is actually carried out (or, if not required by law, commonly occurs in practice).

The professionals who conduct the inspections play a vital part in ensuring that buildings meet safety standards. So it is important that these professionals be certified and that they have the necessary technical qualifications. And if safety violations or construction flaws occur despite their efforts, it is important to have a well-defined liability and insurance structure to cover losses resulting from any structural faults.

The new indicator will cover several points relating to these issues: what the qualification requirements are for the professionals responsible for verifying the architectural plans and for those authorized to supervise the construction; which parties are held legally liable for construction flaws or problems affecting the structural safety of the building once occupied; which parties are required by law to obtain an insurance policy to cover possible flaws or problems affecting the structural safety of the building once occupied; and what the consequences are for the construction company and the professionals authorized to supervise construction if construction flaws or problems are found or if building regulations were not complied with.

Getting electricity

The existing data set on getting electricity measures the efficiency of the process for obtaining an electricity connection for a standard warehouse—as reflected in the procedures, time and cost required. While the efficiency of the connection process has proved to be a useful proxy for the overall efficiency of the electricity sector, these measures cover only a small part of

the sector's performance. Beyond the complexity and high cost of getting an electricity connection, inadequate or unreliable power supply is also perceived as an important constraint on business activity, particularly in the developing world. To offer a more complete view of the electricity sector, *Doing Business* will broaden the scope of the getting electricity indicators to include the reliability of the power supply (figure 3.5). The expanded data set will be published in *Doing Business 2016*.

A new indicator will assess the reliability of electricity supply by measuring both the duration and the frequency of power outages. The indicator will use the system average interruption duration index (SAIDI) and the system average interruption frequency index (SAIFI). SAIDI is the average total duration of outages over the course of a year for each customer served, while SAIFI is the average number of service interruptions experienced by a customer in a year.

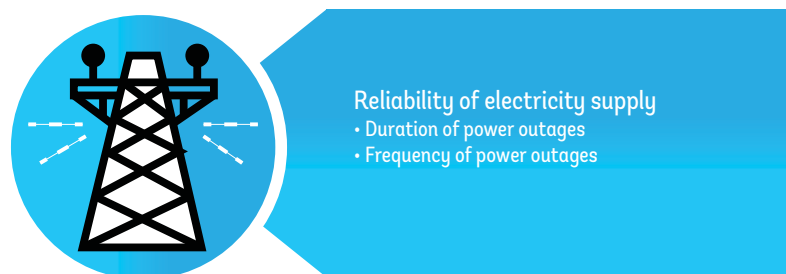
Collecting these data can be challenging. The SAIDI and SAIFI measures are often recorded by utility companies, and the availability and quality of the data depend on the utilities' ability to collect the information. To provide an understanding of the quality of monitoring, the indicator will also record the methods used by electricity distribution companies to measure power outages.

Paying taxes

The paying taxes indicators measure the taxes and mandatory contributions that a medium-size company must pay in a given year as well as the administrative burden of paying taxes and contributions. The indicators now measure only the administrative burden associated with preparing, filing and paying 3 major tax categories (profit taxes, consumption taxes and labor taxes). But the postfiling process—involving tax audits, tax refunds and tax appeals—can also impose a substantial administrative burden on firms. Starting in *Doing Business 2016*, the paying taxes indicator set will therefore be expanded to include measures of the postfiling process.

In addition, this year's report includes an important change in the methodology for the paying taxes indicators. The distance to frontier score for the total tax rate now enters the distance to frontier score for paying taxes in a nonlinear fashion. As a result of this change, an increase in the total tax rate has a smaller impact on the distance to frontier score for paying taxes than previously for economies with a below-average total tax rate and a larger impact for economies with a very high total tax rate relative to the average (see figure 15.2 and the related discussion in the chapter on the distance to frontier and ease of doing business ranking).

FIGURE 3.5 What will be added to getting electricity



Enforcing contracts

The enforcing contracts indicators measure the procedures, time and cost to resolve a commercial dispute between 2 firms. The indicators have focused on the efficiency of the commercial court system without directly addressing the quality of the judiciary or the judicial infrastructure. In *Doing Business 2016* the indicator set will be expanded to cover aspects of judicial quality and court infrastructure, focusing on well-established good practices that promote quality and efficiency in the commercial court system (figure 3.6).

To assess the quality of the judiciary and judicial infrastructure, a new indicator will record whether there is a specialized commercial court or division; whether there is a small claims court; whether voluntary mediation is available; whether arbitration is available; whether pretrial attachment of assets is available; whether it is common practice for the parties in a commercial case to request adjournments

and whether the law sets a limit on the total number allowed; and whether judgments in commercial cases are made available to the general public.

Another new indicator will measure court efficiency. This indicator will record whether the initial complaint can be filed electronically; whether case management is available; whether electronic case management is available; whether there is a pretrial conference as part of the case management system; and whether process can be served electronically.

Once these new data are collected and presented in *Doing Business 2016*, the indicator on the number of procedures to enforce a contract will be dropped.

EXPANDING THE EXISTING MEASURES OF QUALITY

Two sets of *Doing Business* indicators—getting credit and protecting minority investors—already measure aspects

of regulatory quality. These indicator sets have been expanded in this year's report to incorporate more recent knowledge on good practices. These changes are reflected in this year's ranking on the ease of doing business.

Getting credit

The getting credit indicators assess the legal rights of borrowers and lenders in secured transactions and the sharing of credit information. Measures compiled in the strength of legal rights index focus on whether collateral and bankruptcy laws include certain features that facilitate lending. Those combined in the depth of credit information index focus on the coverage, scope and accessibility of credit information available through credit bureaus and registries. Both sets of measures have been expanded this year to cover more good practices (figure 3.7).

The strength of legal rights index has been expanded from 10 points to 12, with the new aspects selected in accordance with UNCITRAL's *Legislative Guide on Secured Transactions*.⁹ One of the new points is awarded for having an integrated secured transactions system. Modern secured transactions systems are aimed at ensuring that a prospective creditor can easily determine not only whether an asset has already been pledged as collateral but also whether there is some other type of right over that asset. Such rights might be established by legal instruments that are functional equivalents to security interests. In an integrated secured transactions system these instruments are regulated under the same law as traditional security interests. This approach provides the greatest transparency and predictability—because all rights in collateral, whether traditional security interests or their functional equivalents, are registered at the same registry, and the law will contemplate how priority rules apply across the different types of contracts.

FIGURE 3.6 What will be added to enforcing contracts

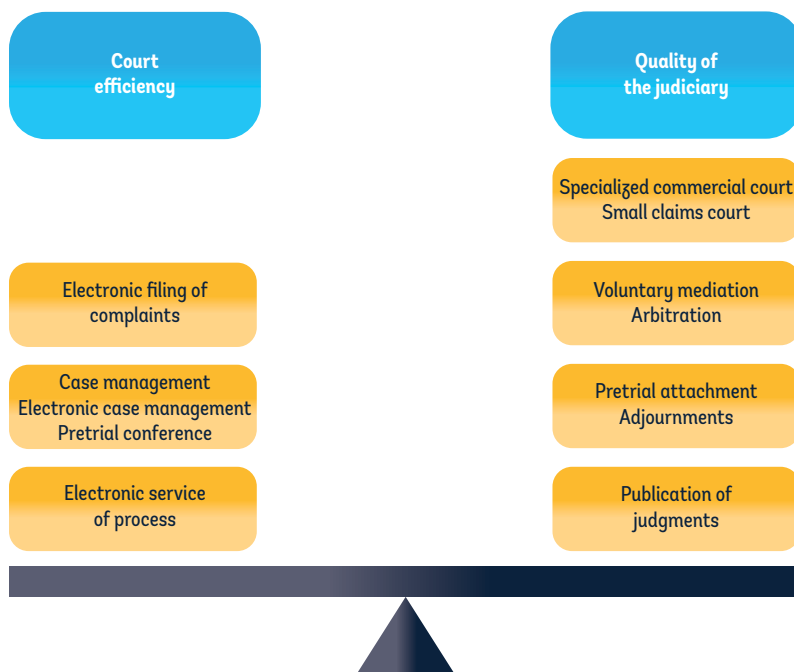


FIGURE 3.7 What has been added to getting credit

Other new points are awarded for having a well-functioning collateral registry, defined by several characteristics. One is that the registry must cover any type of secured transaction, regardless of the type of debtor, creditor or assets.¹⁰ Another is that the registry must be a notice-based registry. This type of registry has much lower administrative and archival costs than a document registry, which must register voluminous documentation and have specialists review the documents provided and the assets used as collateral.

Finally, the registry must offer modern features. Secured creditors (or their representatives) should be able to register, search, amend and cancel security interests online. Information in the database should be updated immediately or no more than 24 hours after registration documents are submitted. And the registry should have a digital database for storing the information. These types of online solutions enhance the efficiency of a registry and the reliability of the information it records. Establishing and maintaining such systems can be costly, however, and these systems need to be backed by adequate legislation, such as privacy laws and regulations on electronic signatures.

The depth of credit information index has been expanded from 6 points to 8. In addition, because of the importance of coverage in assessing the effectiveness of a credit information system,

only credit bureaus or registries that cover at least 5% of the adult population are being scored.

One of the new points is awarded to economies where credit information can be accessed through an online platform or through a system-to-system connection between financial institutions and the credit information system. Online access can improve data quality and security, increase efficiency and transparency and ensure a high standard of service for users—and thus might increase the number of reporting institutions that share credit information.

Another new point is awarded to economies where credit scores are available. Credit scores, considered more effective in predicting risk than credit histories alone, may improve market efficiency and provide borrowers with more opportunities to obtain credit. Their availability enables lenders that would otherwise not be capable of analyzing the raw credit data to extend credit to underserved markets at lower cost.

For more details on the expanded indicators and their scoring methodology, see the data notes. For a complete discussion of the indicators and an analysis of the data, see the case study on getting credit.

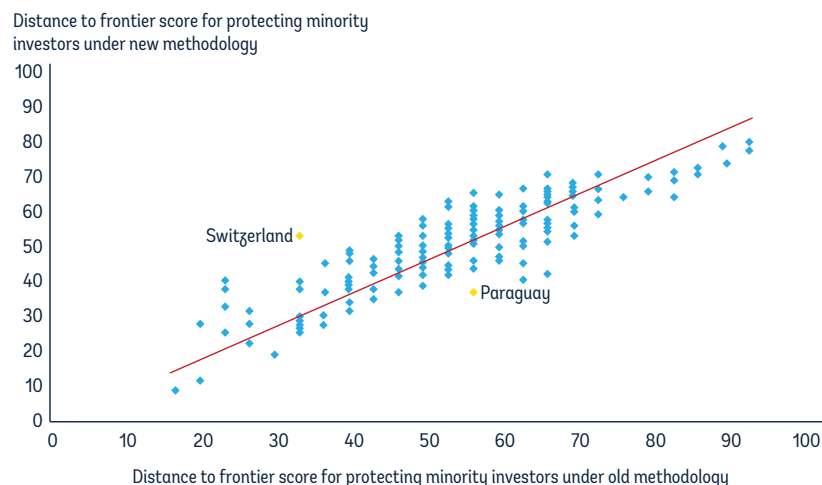
Protecting minority investors

The name of the protecting investors indicator set has been changed this year to protecting minority investors to

better reflect its scope—and the scope of the indicator set has been expanded. The indicators have traditionally measured the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. This year a new indicator has been added to measure shareholders' rights in corporate governance beyond related-party transactions, following internationally accepted good practices such as those proposed by the *OECD Principles of Corporate Governance*.¹¹ The new indicator, the extent of shareholder governance index, encompasses a range of issues and data:

- *Shareholders' rights and role in major corporate decisions*—the extent to which shareholders can influence important corporate decisions, such as appointing and removing board members, issuing new shares and amending the company's bylaws and articles of association.
- *Governance structure*—the extent to which the law mandates separation between corporate constituencies to minimize potential agency conflicts. The issues covered include whether the chief executive officer (CEO) can also be chair of the board of directors, whether a board must include a minimum number of independent directors and whether there are rules relating to cross-shareholding and subsidiary ownership.
- *Transparency*—the extent to which companies are required to disclose information about their finances, about the remuneration of their managers and directors and about other directorships they hold. Transparency has been found to improve governance and lower the cost of investment in capital markets.
- *Allocation of legal expenses*—the extent to which the expenses associated with lawsuits brought by shareholders can be recovered from the company or the payment of the expenses can be made contingent on a successful outcome. The data provide information on whether

FIGURE 3.8 Comparing distance to frontier scores for protecting minority investors under the old and new methodologies



Note: Under the new methodology the distance to frontier score for protecting minority investors includes 6 areas of corporate governance; under the old one it includes 3 of the 6 areas. Both scores are based on this year's data. The 45-degree line shows where the scores under the old and new methodologies are equal. The correlation between the 2 scores is 0.87.

Source: *Doing Business* database.

filing a shareholder action is prohibitively expensive—and therefore impracticable even if allowed by law.

By expanding the scope of the indicators *Doing Business* has raised the bar, making it more difficult to reach the frontier. The highest distance to frontier score for protecting minority investors observed under the new methodology is lower than the highest one under the old methodology (figure 3.8). The average score across all economies covered by *Doing Business* is also lower under the new methodology than under the old one. This is true even though the possible range of the overall measure, the strength of minority investor protection index, continues to be 0–10. Yet some economies score higher on the overall index under the new methodology. One of them is Switzerland. While it performs relatively poorly in protecting minority investors in related-party transactions, it does considerably better on general corporate governance rules. For others, such as Paraguay, the opposite is true.

For more details on the methodology for the protecting minority investors

indicators, see the data notes. For a complete discussion of the new indicator and an analysis of the data, see the case study on protecting minority investors.

NOTES

1. For more information on the Independent Panel on *Doing Business* and its work, see its website at <http://www.dbrpanel.org>.
2. See the data notes for more details.
3. Where the second and third largest cities were very close in population size, the GDP of the city or relevant state was used to determine which city was the second largest business city.
4. For more details, see the chapter in *Doing Business 2014* on research on the effects of business regulations.
5. Kaufmann and Kraay 2002.
6. Cugman, Dima and Dima 2010.
7. Loayza, Oviedo and Servén 2010.
8. World Bank 2011b; UNCITRAL 2004.
9. UNCITRAL 2007.
10. Excluding exemptions such as planes, boats and the like, which are traditionally covered by different registries.
11. OECD 2004.



Reforming the business environment in 2013/14

As many studies have shown, the business environment can have an important influence on the development of the private sector and economic growth—and thus on the creation of jobs and better livelihoods. Where well designed and properly implemented, regulatory reforms can promote private sector growth by eliminating bureaucratic obstacles, reducing cost and time constraints to doing business and improving the efficiency of legal institutions. They can also have an important impact on perceptions of an economy's business environment.

One important area of regulatory reform is the process for starting a business. Research provides strong evidence that reforms making it easier to start a business are associated with more firm creation,¹ which in turn is strongly associated with job creation and economic growth. Using a sample of OECD countries, researchers found that, on average, halving the number of procedures required to start a business is associated with a 14% increase in the number of new business registrations. A similar reduction in the days required is linked to a 19% increase, while an equivalent cut in the cost is associated with a 30% increase.

These findings are borne out by evidence at the country level. After a reform in Mexico that reduced the number of procedures to start a business by about 60%, the country saw a 5% increase in the total number of firms.² Portugal experienced similar effects after it reduced

the time and cost to start a business by 50%. New start-ups increased by about 17%, with most of the growth among less productive firms, those “that would have been most deterred by burdensome regulations, such as small firms in low-tech sectors.”³ Comparable evidence exists on a regional level for Italy: provinces with a longer process for starting a business have lower rates of firm creation than those with a more streamlined process.⁴

Regulatory reforms can have important positive spillover effects. In trade logistics, evidence shows that improving port efficiency not only reduces shipping times but also ultimately cuts shipping costs. According to analysis of data for the *Doing Business* indicators on trading across borders, increasing port efficiency from the 25th to the 75th percentile can reduce shipping costs by 12%.⁵ These spillover effects on shipping costs decrease with an economy's income level: high-income economies showed greater effects than low- and middle-income ones.

Moreover, better regulation is strongly correlated with better perceptions of the quality of the business environment in an economy.⁶ And there is strong evidence that regulatory reforms in the areas measured by *Doing Business* indicators improve perceptions of quality. But the research is inconclusive about which reforms have a greater effect—those affecting the indicators that measure the complexity and cost of regulatory processes or those

- *Doing Business* has captured more than 2,400 regulatory reforms making it easier to do business since 2004.
- In the year ending June 1, 2014, 123 economies implemented at least one such reform in areas measured by *Doing Business*—230 in total.
- Among reforms to reduce the complexity and cost of regulatory processes in 2013/14, those in the area of starting a business were the most common, followed by reforms in the areas of paying taxes and registering property.
- Among reforms to strengthen legal institutions in 2013/14, the largest numbers were recorded in the areas of getting credit and protecting minority investors, and the smallest in the area of resolving insolvency.
- Eight of the 11 economies with a population of more than 100 million implemented at least one reform making it easier to do business in the past year. China, Mexico and the Russian Federation each implemented 2, while India and Indonesia each implemented 3.
- Greece, Italy, Portugal and Spain—all among the economies most adversely affected by the global financial crisis—have maintained a steady pace of regulatory reform.

affecting the indicators that measure the strength of legal institutions. Overall, there appears to be no statistically significant differences between the 2 groups of indicators.

Using its indicators to track changes in business regulations, *Doing Business* has captured more than 2,400 regulatory reforms making it easier to do business since 2004. In the year ending June 1, 2014, 123 economies implemented at least one such reform in areas measured by *Doing Business*—230 in total. From year to year *Doing Business* has recorded many more reforms reducing the complexity and cost of regulatory processes than reforms strengthening legal institutions. It is no different for 2013/14, with a count of 145 reforms reducing regulatory complexity and cost and 85 strengthening legal institutions (table 4.1).

This pattern is no surprise. It happens in small economies and in large ones (box 4.1). Reforms aimed at cutting red tape and improving regulatory efficiency are generally easier to implement, because they rarely involve large institutional players and they yield relatively quick results. By contrast, reforms aimed at improving legal institutions are typically complex. Most entail substantial changes to legal frameworks, are costly to implement and can take years to yield positive results.

HIGHLIGHTS OF REFORMS REDUCING REGULATORY COMPLEXITY AND COST

Among reforms to reduce the complexity and cost of regulatory processes in 2013/14, those in the area of starting a business were the most common, followed by reforms in paying taxes. The area with the third largest number of reforms was registering property, though in previous years it tended to be trading across borders.

TABLE 4.1 Reforms making it easier to do business in 2013/14 and in the past 5 years

| Area of reform | Number of reforms in 2013/14 | Average annual number of reforms in past 5 years | Economy improving the most in area in 2013/14 |
|--|------------------------------|--|---|
| Complexity and cost of regulatory processes | | | |
| Starting a business | 45 | 45 | Timor-Leste |
| Dealing with construction permits | 16 | 19 | Croatia |
| Getting electricity | 12 | 12 ^a | Solomon Islands |
| Registering property | 21 | 22 | Greece |
| Paying taxes | 31 | 34 | Romania |
| Trading across borders | 20 | 23 | Myanmar |
| Strength of legal institutions | | | |
| Getting credit—legal rights | 9 | 10 | Colombia |
| Getting credit—credit information | 22 | 20 | Jamaica |
| Protecting minority investors | 30 | 14 | United Arab Emirates |
| Enforcing contracts | 15 | 13 | Kosovo |
| Resolving insolvency | 10 | 17 | Mozambique |

Note: Because Jamaica implemented changes in the past year in both the strength of legal rights and depth of credit information components of getting credit, the table shows a total of 231 reforms for 2013/14, though only 230 are counted as separate reforms.

a. Refers to the average for the past 4 years.

Source: *Doing Business* database.

Easing bureaucratic barriers to start-up

Start-up formalities, while they still vary around the world, are converging toward good practices. In 2013/14, as in earlier years, many of the reforms making it easier to start a business focused on introducing a one-stop shop or eliminating the minimum capital requirement (see table 4A.1 at the end of the chapter). Timor-Leste, the economy that improved the ease of starting a business the most, did so by creating a one-stop shop. Now entrepreneurs can complete several formalities in one place—reserving a company name, submitting company documents, applying for registration and publishing company statutes. By streamlining start-up formalities and centralizing services, the new one-stop shop reduced the time required to start a business from 94 days to just 10.

São Tomé and Príncipe eliminated the minimum capital requirement for business entities with no need to obtain a

commercial license. Moldova abolished the minimum capital requirement for all limited liability companies. The Russian Federation, through amendments to its civil code and federal law, eliminated the requirement for a company's founders to deposit the charter capital before incorporation. Russia also abolished the requirement for companies to notify the tax authorities of the opening of bank accounts.

Cutting red tape in construction permitting

Doing Business recorded 16 reforms making it easier to deal with construction permits in 2013/14. Most were in Europe and Central Asia and Sub-Saharan Africa. Djibouti and Ghana both streamlined their permitting process. Madagascar and Senegal reduced the time required to obtain a building permit. Mali reduced the time needed to obtain a geotechnical study. And Rwanda eliminated the fee to obtain a freehold title and streamlined the process for obtaining an occupancy permit.

BOX 4.1 Most economies with a population of more than 100 million implemented at least one regulatory reform in 2013/14

Some people might assume that reforming business regulation is easier in small economies because their government structures tend to be less complex. The *Doing Business* data do not suggest that this is so. Eight of the 11 economies with a population of more than 100 million reformed in at least one of the areas measured by *Doing Business* in 2013/14, while only 18 of the 34 economies with a population of less than 1 million did so. Among the 11 large economies, China, Mexico and the Russian Federation each implemented 2 reforms making it easier to do business, while India and Indonesia each implemented 3 (see table).

What did these economies do? India made starting a business easier by considerably reducing the registration fees—though it also added a requirement to file a declaration before commencing business operations. It made obtaining a new electricity connection in Mumbai less costly by reducing the security deposit. And it strengthened minority investor protections by requiring greater disclosure by board members, increasing the remedies available in case of prejudicial related-party transactions and introducing additional safeguards for shareholders of privately held companies.

Indonesia made starting a business easier by making it possible to issue the approval letter for the deed of establishment electronically. It made getting electricity in Jakarta easier by eliminating the need for multiple certificates guaranteeing the safety of internal installations. And it lowered labor taxes.

China also made starting a business easier, by eliminating the minimum capital requirement and thus the need for a capital verification report from an auditing firm. In addition, it reduced employers’ social security contribution rate in Shanghai and enhanced the electronic system for filing and paying taxes.

Mexico improved access to credit by amending its insolvency proceedings law and establishing clear grounds for relief from a stay of enforcement actions by secured creditors during reorganization proceedings. And it made resolving insolvency easier by shortening the time extensions during reorganization proceedings and facilitating electronic submission of documents.

Russia made starting a business easier by eliminating the requirement to deposit the charter capital before company registration as well as the requirement to notify tax authorities of the opening of bank accounts. And it made transferring property easier by eliminating the need for notarization and reducing the time required for property registration.

In 2013/14 the 11 large economies were more likely to implement reforms reducing the complexity and cost of regulatory processes than reforms strengthening legal institutions—a pattern also evident in smaller economies. Among the 15 reforms captured by *Doing Business* in these large economies, most were at the national level and affect both cities measured. One of the exceptions was in the United States, where the reform making it easier to start a business applies to New York City but not to Los Angeles.

Reforms making it easier to do business in the 11 large economies in 2013/14

| Economy | Reforms reducing regulatory complexity and cost | Reforms strengthening legal institutions |
|--------------------|---|--|
| Bangladesh | 1 | 0 |
| Brazil | 0 | 0 |
| China | 2 | 0 |
| India | 2 | 1 |
| Indonesia | 3 | 0 |
| Japan | 0 | 0 |
| Mexico | 0 | 2 |
| Nigeria | 0 | 0 |
| Pakistan | 1 | 0 |
| Russian Federation | 2 | 0 |
| United States | 1 | 0 |

Note: The table 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.

Croatia made the biggest improvement in the ease of dealing with construction permits (figure 4.1). New regulations in the Building Act and Physical Planning Act that took effect on January 1, 2014, made it possible to obtain a building permit before paying contribution fees for utilities, speeding up the permitting process. The fees for building permits were also reduced. In addition, registration of the new

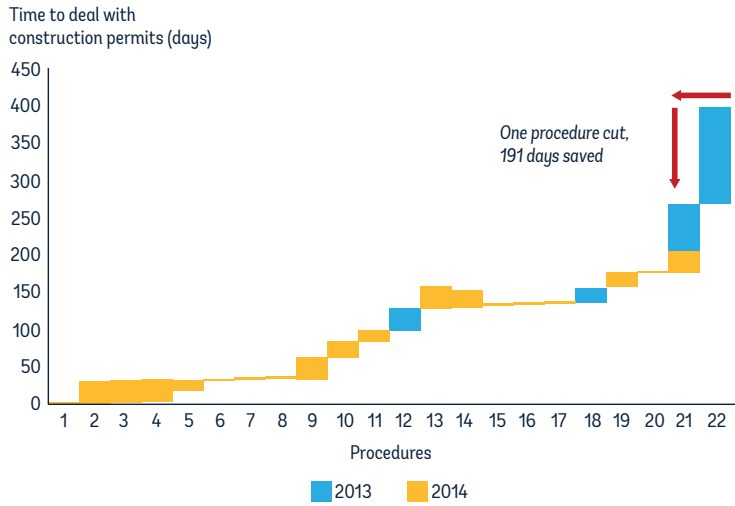
building with the land registry is now done automatically, with no action required by the builder: the municipality sends documentation to the cadastre for registration, and the cadastre sends documentation on to the land registry. And the final inspection is now done with greater timeliness, dramatically reducing the time required for the issuance of the occupancy permit. As a result of all these changes,

the number of procedures required to comply with the formalities to build a warehouse in Croatia fell from 22 to 21, the time from 379 days to 188 and the cost by 0.3% of the warehouse value.

Making it easier to get electricity

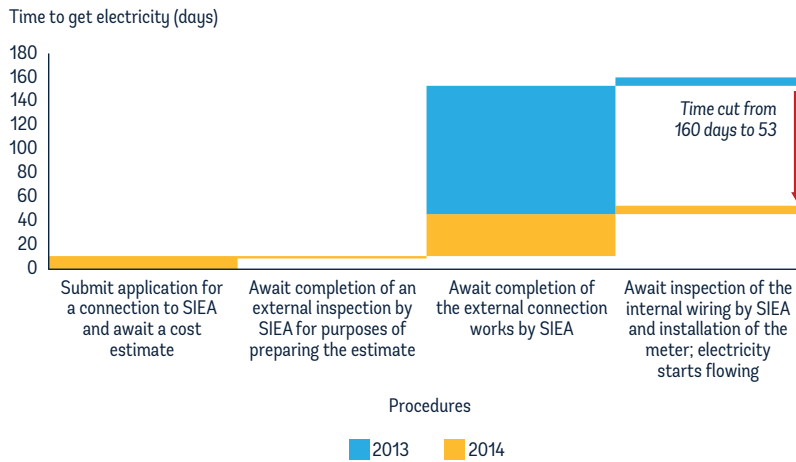
Doing Business recorded only 12 reforms making it easier to get electricity in

FIGURE 4.1 Croatia cut more than 6 months from the time required to deal with construction permits



Source: Doing Business database.

FIGURE 4.2 The Solomon Islands reduced the time to obtain an electricity connection by two-thirds



Note: SIEA is the Solomon Islands Electricity Authority.
Source: Doing Business database.

2013/14. Revision of the costs for new connections was the most common feature of the reforms. In Rwanda, where increasing the electrification rate is a government priority, the distribution utility waived all fees for completing a new connection, including the security deposit. The big reduction in cost provides a strong incentive to seek an official connection to the network and encourages new business ventures.

In Poland the utility in Warsaw revised the fee structure for new connections in ways that reduced the cost for new customers. In India the electricity utility in Mumbai changed its method for calculating the security deposit. The utility now calculates it as a fixed charge per kilowatt rather than basing it on a customer's estimated monthly consumption, increasing the transparency of the related costs.

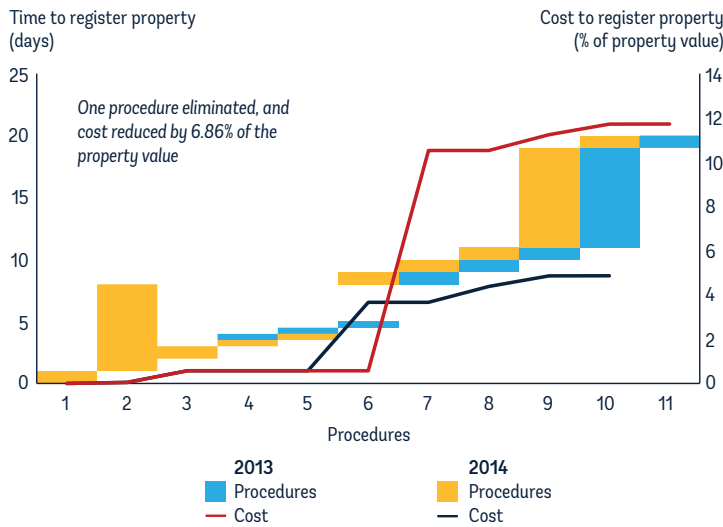
Another common feature of electricity reforms was improvement in the efficiency of distribution utilities' internal processes. The utility in the Democratic Republic of Congo, Société Nationale d'Electricité, reduced the time required to get electricity by improving its administrative management of new connection requests. Starting in 2014 the utility began tracking how much time each of its departments takes to deal with connection requests. The utility also streamlined its internal approval process: its staff no longer seeks approval from the head office for each individual connection request but instead submits batches once a month. The utility in Malawi reduced the time required to get electricity by outsourcing external connection works to subcontractors.

In many economies shortages in the materials needed for external works—such as transformer substations—are a source of substantial delays in the connection process. Tackling this issue was a focus of the utility in the Solomon Islands. By improving procurement practices, the utility cut the wait time for new connections by two-thirds (figure 4.2). As a result, the Solomon Islands made the biggest improvement in the ease of getting electricity in 2013/14.

Simplifying property registration

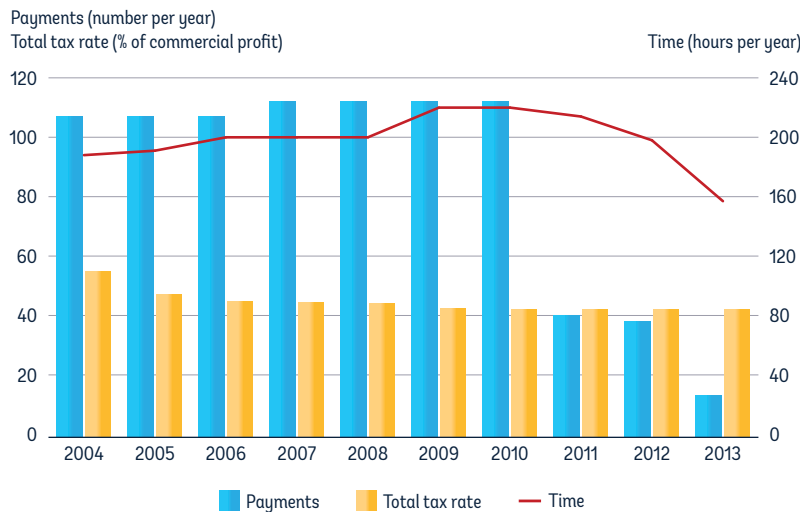
In 2013/14, 21 economies made it easier for businesses to register property by reducing the time, cost or number of procedures required. Among the most common improvements were reducing property transfer taxes, combining or eliminating procedures, and introducing computerized procedures. Lowering the property transfer tax can substantially reduce the cost of transferring property and improve compliance with property registration and tax regulations, though this type of change needs to be informed by broader tax policy discussions.

FIGURE 4.3 Greece made registering property both easier and less expensive



Note: In 2014 procedures 3, 4 and 5 occur simultaneously with procedure 2 (although procedures may take place simultaneously, they cannot start on the same day). Procedure 6 starts after procedure 2.
 Source: Doing Business database.

FIGURE 4.4 Romania has been making compliance with tax obligations easier in recent years



Source: Doing Business database.

Greece made the largest improvement in the ease of registering property (figure 4.3). In December 2013 it established a new property transfer tax of 3% of the property value, substantially lower than the previous one of 10%. In addition, it simplified property transfers by eliminating the need to submit a tax clearance certificate from the municipality before signing the sale agreement.

Sub-Saharan Africa accounted for the largest number of property registration reforms in 2013/14. For example, Mozambique streamlined registration procedures at the land registry and the municipality. Côte d'Ivoire established a single process for tax and property registration and lowered the property registration tax. Senegal replaced the requirement for authorization from

the tax authority with a notification requirement and set up a single step for the property transfer at the land registry.

Making it easier and less costly to pay taxes

Doing Business recorded 31 reforms in 2013/14 making it easier or less costly for firms to pay taxes. Europe and Central Asia accounted for the largest number, with 9. Globally, the most common feature of tax reforms in the past year was the introduction or enhancement of electronic systems for filing and paying taxes. Thirteen economies implemented such changes, including Azerbaijan, Belarus, Moldova, Mongolia, Romania, Tajikistan and Ukraine. Electronic tax systems, if implemented well and used by most taxpayers, benefit both tax authorities and firms. For tax authorities, they ease workloads and reduce operational costs. And for firms, they reduce the time required to comply with tax obligations as well as the potential for errors.

Romania improved the ease of paying taxes the most in 2013/14 (figure 4.4). The government has developed an electronic system for filing and paying corporate income tax, value added tax and all 6 mandatory labor contributions measured by Doing Business.⁷ The system was initially launched in 2010, though with only the possibility of submitting tax returns online. Over the past 2 years, however, online payment of taxes and contributions became possible with the use of banking cards and was gradually taken up by the business community. By January 2013 the majority of firms were making their tax payments online.

Other economies making noteworthy changes in the area of paying taxes in the past year include Belarus, China, the Democratic Republic of Congo and Latvia. Belarus improved its system for keeping online records for corporate income tax and value added tax. The

system now automatically updates all relevant tax rates, alerts users of potential errors and automatically collects and checks data required for filling out tax returns. Belarus also simplified its rules for deducting expenses for the calculation of corporate income tax. Four other economies merged or eliminated certain taxes—the Republic of Congo, Hungary, Senegal and Zambia.

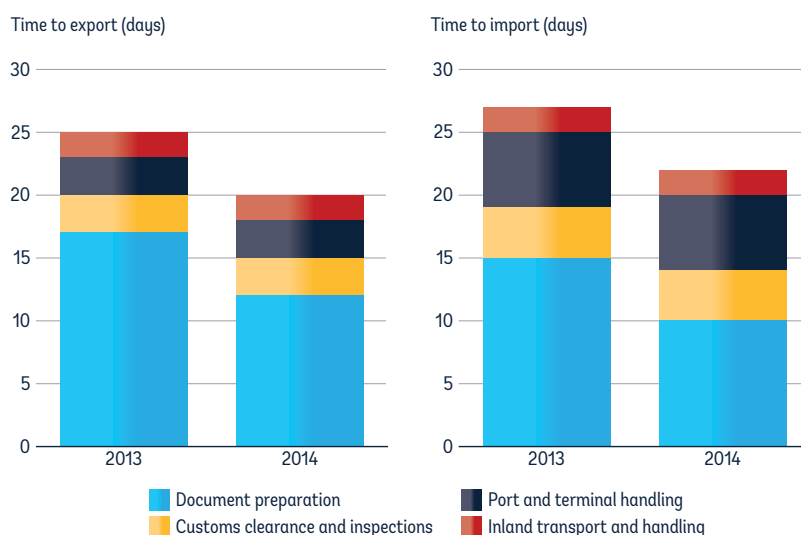
Eleven economies reduced profit tax rates, the second most common feature of tax reforms in 2013/14. These include 4 high-income economies (Portugal, Spain, St. Kitts and Nevis, and the United Kingdom), 3 upper-middle-income economies (Colombia, the Seychelles and Tunisia) and 4 lower-middle-income economies (the Republic of Congo, Guatemala, Swaziland and Vietnam). Reductions in profit tax rates are often combined with efforts to widen the tax base by removing exemptions and with increases in the rates of other taxes, such as value added tax.

Facilitating trade

Myanmar made the biggest improvement in the ease of trading across borders in 2013/14 (figure 4.5). Its Ministry of Commerce abolished the export license requirement for 166 types of goods and the import license requirement for 152—reducing the time, cost and number of documents required to export and import general cargo products. As measured by *Doing Business*, exporting now takes 20% less time than before, and importing 19% less time.

Tanzania invested in port infrastructure. New cranes, a conveyor belt and anchorage tankers at the port of Dar es Salaam helped reduce berthing and unloading time as well as congestion. The reduction in the time required for port and terminal handling activities benefits not only traders in Tanzania but also those in the landlocked economies of Burundi and Rwanda that use the port.

FIGURE 4.5 Myanmar reduced the time to export and import by abolishing license requirements for many types of goods



Source: *Doing Business* database.

Eighteen other economies also implemented reforms making it easier to trade across borders in 2013/14. Introducing or improving electronic submission and processing of documents was the most common feature of these reforms. Eight economies—Bangladesh, Croatia, Ecuador, Pakistan, Palau, St. Lucia, Uganda and Uzbekistan—reduced the time to export and import by implementing computerized systems that allow web-based submission of documents. Croatia switched to an electronic customs system as part of reforms in preparation for accession to the European Union.

Improving customs administration remained an important item on reform agendas. Benin, Côte d'Ivoire, the Dominican Republic, Morocco, Myanmar, St. Lucia and Uzbekistan all did so by reducing the number of documents required by customs or streamlining the process to obtain and submit certain documents.

Five economies—Algeria, Ghana, Jordan, Kazakhstan and Tanzania—strengthened transport or port

infrastructure. Kazakhstan opened a new border station and railway link that reduced congestion at the border with China. Poland improved port procedures by launching a new terminal operating system at the port of Gdansk. And Uruguay implemented a risk-based inspection system that reduced customs clearance time.

HIGHLIGHTS OF REFORMS STRENGTHENING LEGAL INSTITUTIONS

Among reforms to strengthen legal institutions in 2013/14, the largest numbers were recorded in the areas of getting credit and protecting minority investors (with 30 in each area), and the smallest in the area of resolving insolvency. Economies in Europe and Central Asia implemented the most reforms aimed at strengthening legal institutions, followed by economies in Sub-Saharan Africa.

Strengthening legal rights of borrowers and lenders

In 2013/14, 9 economies improved access to credit by strengthening the legal

rights of borrowers and lenders—either by reforming secured transactions legislation or by enhancing secured creditors’ rights in bankruptcy proceedings (see table 4A.1 at the end of the chapter). Colombia, Hungary and Jamaica all implemented a functional approach to secured transactions. The Czech Republic and the Lao People’s Democratic Republic both created a modern, notice-based collateral registry. Hungary and Panama expanded the range of movable assets that can be used as collateral. Mexico, Rwanda, and Trinidad and Tobago strengthened the rights of secured creditors during reorganization proceedings.

Globally, Colombia strengthened the legal rights of borrowers and lenders the most, by implementing a new legal framework for secured transactions (table 4.2). The country launched a collateral registry with modern features in May 2014, following approval of a new law on movable property guarantees. The new law permits all types of movable assets, present or future, to be used as collateral to secure a loan. The law also regulates legal instruments that are the functional equivalents of traditional security interests, such as assignments of receivables and sales with retention of title. In addition, it provides priority rules for creditors’ claims within bankruptcy and establishes the rights of secured creditors during reorganization proceedings. Finally, the law allows out-of-court enforcement of collateral.

Jamaica also made noteworthy improvements in the area of legal rights in the past year. It adopted a new law on secured transactions that broadens the range of assets that can be used as collateral, allows a general description of assets granted as collateral and establishes a modern, unified, notice-based collateral registry. Panama implemented similar changes and also introduced the possibility of out-of-court enforcement of collateral.

The Czech Republic, through an amendment to its civil code, made it possible to register receivables at the pledge registry. It also introduced the possibility for the parties to a security agreement to agree to out-of-court enforcement of the collateral. The government of Lao PDR established a centralized, online, notice-based registry where financial institutions can register any security interest held over movable property—including functional equivalents to more traditional security interests, such as financial lease agreements, assignments of receivables, fiduciary transfers of title and sales with retention of title.

Improving credit information systems

Jamaica made the biggest improvement in credit reporting in 2013/14. Two new credit bureaus, Creditinfo Jamaica and CRIF-NM Credit Assure Limited, having received business licenses in 2012, began operations in 2013. Twenty-one other economies also improved credit reporting, with the largest number of them in Sub-Saharan Africa.

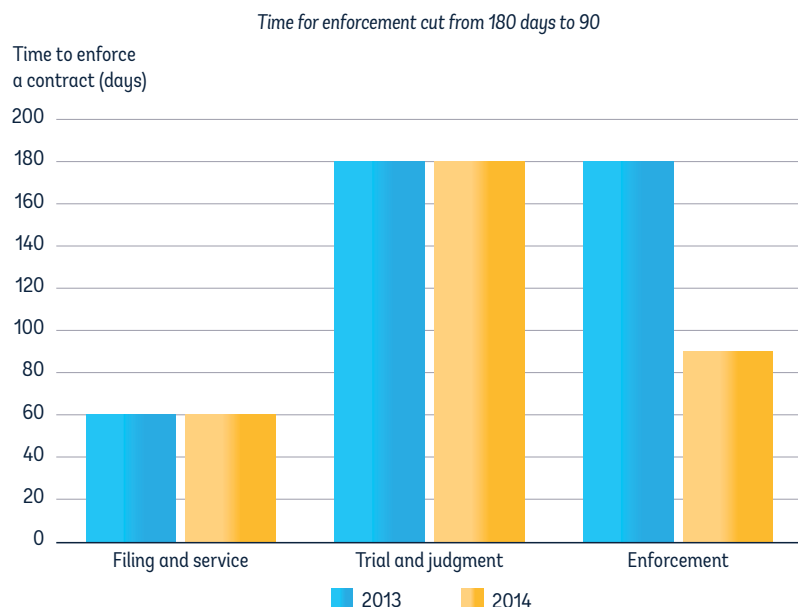
The Democratic Republic of Congo and Tanzania both established new credit reporting agencies. The Democratic Republic of Congo’s central bank established an electronic system allowing the exchange of credit information between its credit registry and banks and financial institutions. Tanzania’s central bank issued an operating license to the country’s first credit bureau, Creditinfo Tanzania, in June 2013, and to its second one, Dun & Bradstreet Credit Bureau Tanzania, in September 2013. Creditinfo Tanzania began responding to inquiries from data users 2 months after receiving its license. Vietnam’s first credit bureau, Vietnam Credit Information, started serving data users in January 2014 along with the existing credit registry managed by the country’s central bank.

TABLE 4.2 A comparison of Colombia’s previous and new legal frameworks for secured transactions

| Previous legal framework | New legal framework |
|---|---|
| <i>Is there a functional secured transactions system?</i> | |
| No. | Yes. |
| <i>Is the collateral registry unified or centralized geographically for the entire economy?</i> | |
| No. | Yes. |
| <i>Is the collateral registry notice-based?</i> | |
| No. | Yes. |
| <i>Does the collateral registry have a modern online system (such as for registrations and amendments)?</i> | |
| No. | Yes. |
| <i>Can secured creditors apply for relief from an automatic stay during reorganization proceedings?</i> | |
| No. | Yes, the new law establishes clear grounds for relief. |
| <i>Do secured creditors’ claims have priority inside bankruptcy?</i> | |
| No clear priority rules for secured creditors. | Yes, the new law gives priority to secured creditors’ claims. |
| <i>Can security rights in a single category of assets be described in general terms?</i> | |
| No, detailed description of the assets required by law. | Yes, the new law allows a general description. |
| <i>Can parties agree to enforce security rights out of court?</i> | |
| No, out-of-court enforcement not permissible by law. | Yes, the new law allows out-of-court enforcement of collateral. |

Source: Doing Business database. Five Sub-Saharan African economies—Cabo Verde, Cameroon, Côte d’Ivoire, Kenya and Senegal—strengthened their regulatory frameworks for credit reporting. Cameroon’s government passed legislation establishing an integrated database that records negative payment information on bank accounts, checks and cards as well as credit information on firms and micro-finance institutions. Kenya issued new regulations allowing the exchange of positive credit information and establishing guidelines for data retention.

FIGURE 4.6 Kosovo cut the time for enforcing judgments in half by introducing a private bailiff service



Source: Doing Business database.

Among OECD high-income economies, Ireland and the Slovak Republic improved their regulatory frameworks for credit reporting. Ireland created a regulatory framework for the establishment and operation of a central credit register that will be managed by the country's central bank. The Slovak Republic adopted a new regulation to protect the rights of individuals in the processing of their personal data. And New Zealand, under its Credit Reporting Privacy Code, introduced more comprehensive credit reporting. In addition to negative credit information, credit bureaus now collect and report positive credit information on individuals and firms from banks, financial institutions and telephone companies.

Strengthening minority investor protections

The United Arab Emirates strengthened minority investor protections the most in 2013/14, through a new ministerial resolution on corporate governance rules and corporate discipline standards. The resolution establishes

requirements for related-party transactions to be approved by a general meeting of shareholders, to undergo prior review by a specialized external firm and to be disclosed in detail to the Securities and Commodities Authority. The resolution also establishes director liability for any damage resulting from prejudicial related-party transactions and enables courts to cancel such transactions on grounds of unfairness. Finally, it permits shareholders representing 5% or more of the shares of a company involved in a related-party transaction to access documents relating to the transaction.

The most far-reaching change in minority investor protections, however, took place in January 2014, when the OHADA (Organization for the Harmonization of Business Law in Africa) Revised Uniform Act on Commercial Companies and Economic Interest Groups simultaneously updated the regulatory frameworks of 17 member economies in Sub-Saharan Africa. The revised act addresses multiple aspects of corporate

law. Among other things, it increases the requirements for directors to disclose their conflicts of interest and grants shareholders the right to access and obtain copies of all documents pertaining to related-party transactions.

One OHADA member, Senegal, made further improvements by amending its code of civil procedure—and with these changes became the economy that most strengthened minority investor protections in Sub-Saharan Africa in 2013/14. Notably, the amendments grant litigants increased rights to obtain evidence relevant to their claims from the opposing parties. Elsewhere in the region, The Gambia adopted a new Companies Bill, clarifying the duties of directors and offering new venues and remedies for minority shareholders harmed by abusive conduct by company insiders.

Making it easier to enforce contracts

Doing Business recorded 15 reforms making it easier to enforce contracts in 2013/14. Kosovo made the biggest improvement—by introducing a private bailiff system (figure 4.6). The effort began in 2010, when the local judiciary was short of resources and facing a heavy backlog. Less than 4% of civil enforcement cases on court dockets were completed in 2009, and for many courts the share was less than 1%. The Kosovo Judicial Council, with the assistance of the U.S. Agency for International Development, analyzed the legal framework and identified the main causes of delay. This mapping exercise showed that the lack of penalties for filing groundless appeals, the impossibility of seizing most kinds of assets and the inadequacy of the regulatory framework for enforcement officers contributed substantially to the growing backlog. A 3-year work plan was undertaken to provide more suitable ways to deal with business disputes. In 2013 Kosovo finished privatizing its judicial enforcement process and

created private bailiff services, expedient execution procedures and penalties for noncompliant debtors.

Globally, one of the most common features of reforms in contract enforcement in the past year was the introduction of electronic filing. Greece, Kazakhstan, Lithuania, Mauritius and Turkey all made their courts more efficient by implementing electronic filing platforms. These enable litigants to file initial complaints electronically—increasing transparency, expediting the filing and the service of process, limiting opportunities for corruption and preventing the loss, destruction or concealment of court records. In Singapore the judiciary launched an electronic litigation system designed to streamline the litigation process and improve access to justice. The system allows litigants to file their cases online—and it enables courts to keep litigants and lawyers informed about their cases through e-mail, text messages and text alerts; to manage hearing dates; and even to hold certain hearings through videoconference.

The Bahamas, Portugal and Uruguay adopted a new code of civil procedure or amended procedural rules applicable to commercial cases, mainly to reduce case backlog, simplify and expedite court proceedings and limit obstructive techniques. In 2013 Uruguay passed a law setting tight deadlines that parties to a commercial case must comply with throughout the entire court proceedings. Three economies—the Czech Republic, Ireland and South Africa—reorganized their court systems by amending the rules on the size of monetary claims that can be filed with courts at different levels, thus redistributing the workload among courts and reducing backlog.

Creating specialized commercial courts or divisions has been a common feature of reforms in contract enforcement over the years. Two economies undertook

such changes in 2013/14. Benin established a commercial chamber within its court of first instance and assigned 6 judges to solely hear commercial cases. The Seychelles established a specialized commercial court and assigned a permanent local judge to resolve only commercial disputes.

Increasing efficiency in resolving insolvency

Doing Business recorded 10 reforms making it easier to resolve insolvency in 2013/14, most of them in OECD high-income and Sub-Saharan African economies. Among the most common features of these reforms were promoting reorganization and improving the likelihood of successful outcomes in insolvency proceedings. Mozambique, the Seychelles, and Trinidad and Tobago introduced a court-supervised reorganization procedure. Switzerland allowed cancellation of long-term contracts that could jeopardize the debtor's rehabilitation. Slovenia established a simplified reorganization procedure for small companies and a preventive restructuring procedure for medium-size and large ones. Slovenia also made it easier for creditors to initiate reorganization proceedings and propose a reorganization plan, introduced provisions on debt-equity swaps and allowed new equity holders to take over management of the debtor to ensure continuation of the business.

Mozambique improved the ease of resolving insolvency the most in the past year (table 4.3). A new legal framework for insolvency adopted in 2013 introduced a reorganization procedure for commercial entities, granted creditors better access to information during insolvency proceedings and provided for more active participation by creditors in the proceedings.

Other insolvency reforms recorded in 2013/14 focused on streamlining and shortening time frames for proceedings.

TABLE 4.3 A comparison of Mozambique's previous and new legal frameworks for insolvency

| Previous legal framework | New legal framework |
|--|--|
| Can a debtor initiate reorganization proceedings? | |
| No. | Yes. |
| Do creditors vote on the reorganization plan? | |
| No reorganization available. | Yes, all creditors vote. |
| Do creditors vote on the reorganization plan in classes? | |
| No reorganization available. | Creditors are divided into classes, creditors within each class are treated equally, and the plan is approved by a simple majority of creditors in each class. |
| Can creditors request information about insolvency proceedings? | |
| No specific provisions. | The insolvency administrator has the duty to provide any creditor with information requested by the creditor. |
| Can creditors object to decisions that affect their rights? | |
| No specific provisions. | A creditor has the right to object to decisions to accept or reject claims of other creditors. |

Source: *Doing Business* database.

The former Yugoslav Republic of Macedonia tightened time frames for several stages of insolvency proceedings and established a framework for electronic auctions of debtors' assets. Mexico shortened the time extensions allowed during reorganization proceedings and made it easier to submit documents electronically. Several other economies reformed their insolvency laws to strengthen the rights of creditors. For example, Kazakhstan established provisions for direct participation of all creditors through creditors' meetings.

Another common feature of insolvency reforms in the past year was to improve regulations on the profession of insolvency administrators. Trinidad and

Tobago created a public office responsible for the general administration of insolvency proceedings and clarified rules on the appointment and duties of trustees. And Uganda established explicit rules on the enforcement of the duties of liquidators during liquidation proceedings.

Addressing labor market regulation

In 2013/14 *Doing Business* recorded 9 reforms relating to labor market regulation. The economies implementing reforms included Portugal, which has made the most reforms aimed at improving the labor market environment in recent years. In 2013 Portugal revised the rules on fixed-term contracts executed under the labor code that reach their maximum duration before November 8, 2015; under the new rules these contracts can be renewed 2 more times, with an additional maximum duration of 12 months, though the renewed contracts need to end by December 31, 2016. In previous years Portugal reduced the wage premium required for work on weekly holidays and also made redundancy easier by eliminating the need to follow a specific order in dismissals when eliminating a worker's position. Portugal's continual reforms in labor market regulation are in part a response to the economic downturn that followed the global financial crisis. And Portugal is one of several Southern European economies that reformed business regulation in areas beyond labor market regulation in 2013/14 (box 4.2).

Other economies implementing reforms in labor market regulation in 2013/14 focused on different areas. Cabo Verde introduced a minimum wage. Finland made the redundancy process more flexible by eliminating the requirement to notify a third party before dismissing 1 redundant worker or a group of 9 redundant workers. Croatia lifted the 3-year limit on the duration of first-time fixed-term contracts,

BOX 4.2 Southern European economies continue a steady pace of regulatory reform

Greece, Italy, Portugal and Spain—all among the economies most adversely affected by the global financial crisis—have maintained a steady pace of regulatory reform. As *Doing Business 2013* reported, the pace picked up in the aftermath of the crisis, and this year's report shows that the trend has continued. In 2013/14 Greece reformed in 3 areas of business regulation measured by *Doing Business*, and Spain in 4.

Greece made starting a business easier by lowering the cost of registration. It made transferring property easier by reducing the property transfer tax and eliminating the requirement for a municipal tax clearance certificate. And it made enforcing contracts easier by introducing an electronic filing system for court users.

Italy and Spain also made starting a business easier. Italy reduced the minimum capital requirement, while Spain simplified business registration by introducing an electronic system that links several public agencies. Portugal lowered its corporate income tax rate and introduced a reduced corporate tax rate for a portion of the taxable profits of qualifying small and medium-size enterprises. Spain reduced its statutory corporate income tax rate.

Portugal made enforcing contracts easier by adopting a new code of civil procedure designed to reduce court backlog, streamline court procedures, enhance the role of judges and speed up the resolution of standard civil and commercial disputes. Spain made resolving insolvency easier by introducing new rules for out-of-court restructuring as well as provisions applicable to prepackaged reorganizations.

These economies, by actively reducing the complexity and cost of regulatory processes and strengthening legal institutions, are narrowing the gap with the regulatory frontier at a faster pace than the rest of the European Union.

while Mauritius reduced the maximum duration of fixed-term contracts to 24 months and Georgia reduced it to 30 months.

NOTES

1. Klapper and Love 2011.
2. Bruhn 2011.
3. Branstetter and others 2013.
4. Bripi 2013.
5. Portugal-Perež and Wilson 2012.
6. Kraay and Tawara 2013.
7. The 6 mandatory labor contributions measured by *Doing Business* are those for social security, health insurance, unemployment, an accident risk fund, a guarantee fund and medical leave.

TABLE 4A.1 Who reduced regulatory complexity and cost or strengthened legal institutions in 2013/14—and what did they do?

| Feature | Economies | Some highlights |
|---|--|---|
| Making it easier to start a business | | |
| Simplified preregistration and registration formalities (publication, notarization, inspection, other requirements) | Albania; Bulgaria; The Gambia; Guatemala; India; Islamic Republic of Iran; Jamaica; Malawi; Malta; Mauritius; Nicaragua; Norway; Slovak Republic; Spain; Swaziland; United Kingdom | Guatemala's official gazette reduced the time to publish a notice of incorporation by modifying internal processes. The Islamic Republic of Iran combined name reservation with company registration at a single window. |
| Abolished or reduced minimum capital requirement | Austria; Benin; China; Côte d'Ivoire; Czech Republic; Denmark; Italy; Moldova; São Tomé and Príncipe; Senegal; Togo | China and Côte d'Ivoire both abolished the minimum capital requirement. In doing so, China also eliminated the need to open a preliminary bank account, deposit the capital and obtain a certificate of deposit. |
| Cut or simplified postregistration procedures (tax registration, social security registration, licensing) | Armenia; Greece; Jamaica; Lithuania; Mauritania; Russian Federation; United States | Lithuania abolished the requirement for a company seal, no longer used in practice. Mauritania eliminated the requirement to publish company statutes in the official gazette. |
| Introduced or improved online procedures | Azerbaijan; Croatia; Iceland; Indonesia; FYR Macedonia; Switzerland; Trinidad and Tobago | Trinidad and Tobago introduced an online platform for business registration, reducing registration time from 38 days to 14.5. The former Yugoslav Republic of Macedonia introduced a free online company registration system. |
| Created or improved one-stop shop | Democratic Republic of Congo; France; Suriname; Tajikistan; Timor-Leste | Timor-Leste created a one-stop shop—making it possible to reserve a company name, file the company statutes, apply for and obtain the final registration number and publish the statutes all at one agency. |
| Making it easier to deal with construction permits | | |
| Reduced time for processing permit applications | Albania; Croatia; Djibouti; Ghana; Lithuania; Madagascar; Senegal; Thailand | Lithuania tightened the time limit for issuing special architectural requirements, cutting the time to obtain a building permit from 42 days to 21. Madagascar completed the computerization of its one-stop shop, reducing the time to obtain a building permit from 90 days to 45. |
| Streamlined procedures | Albania; Brunei Darussalam; Djibouti; Ghana; Madagascar; Mali; Rwanda | Djibouti streamlined the review of building permits by adopting a 3-step process. Ghana made it mandatory to submit all required clearances when applying for a building permit. |
| Adopted new building regulations | Albania; Croatia; Lithuania; Montenegro; Nepal | Albania adopted a new law on territory planning, consolidating the land permit and construction permit into a single construction development permit. Croatia's adoption of the Building Act and a new Physical Planning Act made it possible to obtain a building permit before paying contribution fees for utilities. |
| Improved building inspection process | Kosovo; Nepal; Puerto Rico (U.S.) | Kosovo introduced a new inspection scheme and made the final inspection process easier by breaking the approval process into several phases. Puerto Rico (territory of the United States) introduced the option of hiring an authorized professional and authorized inspector to carry out the fire safety recommendations and issue the fire prevention and environmental health certificates. |
| Reduced fees | Croatia; Rwanda; Tajikistan | Rwanda eliminated the fee to obtain a freehold title. Tajikistan reduced the fee for obtaining an architectural planning assignment. |
| Improved or introduced electronic platforms or online services | Nepal | Nepal launched an online system for obtaining building permits. |
| Making it easier to get electricity | | |
| Improved regulation of connection processes and costs | India; Jamaica; Poland; Rwanda; Sierra Leone; Taiwan, China | In Poland the electricity utility made obtaining a new connection less costly by revising its fee structure. In Rwanda the electricity utility eliminated all its fees for a new connection. |
| Improved process efficiency | Democratic Republic of Congo; Costa Rica; Malawi; Solomon Islands | The electricity utility in Malawi engaged private subcontractors to carry out external connection works, reducing the time required to complete the works by 50 days. |
| Streamlined approval process | Indonesia; Islamic Republic of Iran | Indonesia eliminated a redundant internal wiring inspection by dropping the requirement for a certificate guaranteeing that the internal installation meets the standards. |
| Making it easier to register property | | |
| Reduced taxes or fees | Bahrain; Côte d'Ivoire; Greece; San Marino; Spain; Togo | Greece reduced the property transfer tax from 10% of the property value to 3%. Spain reduced the property registration tax to 6% of the property value. |
| Combined or eliminated procedures | Colombia; Greece; Mozambique; Russian Federation; Senegal | Colombia eliminated the need for a provisional registration. The Russian Federation eliminated the requirement for notarization of certain documents. |
| Computerized procedures | Albania; Côte d'Ivoire; Ireland; Sweden; Vanuatu | Ireland enhanced its land registry's computerized system and implemented an online system for title registration. In Vanuatu property records have been scanned, and the land registry is now using a fully computerized system for land transactions. |
| Increased administrative efficiency | Guinea; Republic of Korea; United Arab Emirates | The District Registration Courts in the Republic of Korea increased efficiency by streamlining internal processes. The United Arab Emirates started licensing companies to act on behalf of the Dubai Land Department and use its system for property registration. |

TABLE 4A.1 Who reduced regulatory complexity and cost or strengthened legal institutions in 2013/14—and what did they do?

| Feature | Economies | Some highlights |
|---|---|--|
| <i>Making it easier to register property (continued)</i> | | |
| Set effective time limits | Albania; Kazakhstan; Russian Federation | Albania established effective time limits for processing requests at the local offices for registration of immovable property. Kazakhstan introduced effective time limits for issuing technical passports and nonencumbrance certificates on immovable property. |
| Introduced online procedures | Azerbaijan; Poland | Azerbaijan introduced a system allowing notaries to obtain nonencumbrance certificates online. Poland provided legal status to land extracts obtained online. |
| Introduced fast-track procedures | Sierra Leone | Sierra Leone introduced a fast-track procedure for property registration. |
| <i>Making it easier to pay taxes</i> | | |
| Introduced or enhanced electronic systems | Azerbaijan; Belarus; China; Costa Rica; Gabon; Guatemala; Moldova; Mongolia; Romania; Taiwan, China; Tajikistan; Ukraine; Zambia | Belarus introduced electronic filing and payment for the obligatory insurance fund in 2013. |
| Reduced profit tax rate by 2 percentage points or more | Colombia; Republic of Congo; Guatemala; Portugal; Seychelles; Spain; Swaziland; St. Kitts and Nevis; Tunisia; United Kingdom; Vietnam | Portugal reduced the corporate income tax rate from 25% to 23% for 2013. |
| Simplified tax compliance process | Belarus; Brunei Darussalam; China; Democratic Republic of Congo; Latvia; Seychelles | Latvia introduced a simplified value added tax return in January 2013. |
| Reduced labor taxes and mandatory contributions by 1 percentage point or more | China; Colombia; Indonesia; Togo | China reduced the social security contribution rate for firms in Shanghai from 37% to 35% for 2013. |
| Merged or eliminated taxes other than profit tax | Republic of Congo; Hungary; Senegal; Zambia | Hungary abolished the special tax that had been introduced in 2010. |
| Reduced number of tax filings or payments | Belarus; Cyprus; West Bank and Gaza | Cyprus reduced the number of provisional tax installments for corporate income tax from 3 to 2 in 2013. |
| <i>Making it easier to trade across borders</i> | | |
| Introduced or improved electronic submission and processing | Bangladesh; Croatia; Ecuador; Pakistan; Palau; St. Lucia; Uganda; Uzbekistan | Ecuador upgraded to a new electronic data interchange system, reducing customs clearance time. |
| Improved customs administration | Benin; Côte d'Ivoire; Dominican Republic; Morocco; Myanmar; St. Lucia; Uzbekistan | St. Lucia reduced the number of export documents that must be submitted to customs by merging 2 forms. |
| Strengthened transport or port infrastructure | Algeria; Ghana; Jordan; Kazakhstan; Tanzania | Ghana invested in infrastructure at the port of Tema, which helped reduce the wait time for vessels outside the port. |
| Improved port procedures | Côte d'Ivoire; Poland | Poland launched a new terminal operating system at the port of Gdansk. |
| Introduced or improved risk-based inspections | Uruguay | Uruguay implemented a risk-based inspection system that reduced customs clearance time. |
| <i>Strengthening legal rights of borrowers and lenders</i> | | |
| Created a unified registry for movable property | Colombia; Hungary; Jamaica; Lao PDR | The Lao People's Democratic Republic established a registry in the Ministry of Finance for security interests in movable property. The registry began operating in November 2013. |
| Introduced a functional, integrated and comprehensive secured transactions regime | Colombia; Hungary; Jamaica | Colombia approved a new law establishing a modern legal framework for secured transactions. The law allows all types of movable assets, present or future, to be used as collateral to secure a loan. It also regulates functional equivalents to loans secured with movable property, such as assignments of receivables and sales with retention of title. |
| Strengthened rights of secured creditors during reorganization procedures | Mexico; Rwanda; Trinidad and Tobago | In Mexico amendments to the insolvency proceedings law established new grounds for relief from a stay of enforcement actions by secured creditors during a reorganization procedure. |
| Allowed out-of-court enforcement | Czech Republic; Panama | The Czech Republic adopted new legislation making it possible to execute a security in any way established by the parties to a security agreement. |
| Expanded range of movable assets that can be used as collateral | Hungary; Panama | Panama introduced a new law governing chattel mortgages that expands the range of movable assets that can be used as collateral to secure a loan. |
| <i>Improving the sharing of credit information</i> | | |
| Expanded scope of information collected and reported by credit bureau or registry | Bahrain; Cyprus; Mauritania; New Zealand; Sierra Leone; Taiwan, China; United Arab Emirates; Zambia | New Zealand implemented comprehensive credit reporting and began distributing both positive and negative information in credit reports. |
| Improved regulatory framework for credit reporting | Cabo Verde; Cameroon; Côte d'Ivoire; Dominican Republic; Ireland; Kenya; Senegal; Slovak Republic | Ireland adopted a new credit reporting act providing for the establishment of a central credit register to be managed by the central bank. |
| Established a credit bureau or registry | Democratic Republic of Congo; Jamaica; Tanzania; Vietnam | In Jamaica 2 new credit bureaus, licensed in 2012, started serving banks and other financial institutions in 2013. |
| Introduced bureau or registry credit scores as a value added service | Nicaragua; Tajikistan | In Nicaragua in June 2013 the credit bureau TransUnion Nicaragua started offering the service of credit scoring based on its data. |

TABLE 4A.1 Who reduced regulatory complexity and cost or strengthened legal institutions in 2013/14—and what did they do?

| Feature | Economies | Some highlights |
|--|---|---|
| Strengthening minority investor protections | | |
| Increased disclosure requirements for related-party transactions | Benin; Burkina Faso; Cameroon; Central African Republic; Chad; Comoros; Democratic Republic of Congo; Republic of Congo; Côte d'Ivoire; Ecuador; Arab Republic of Egypt; Equatorial Guinea; Gabon; Guinea; Guinea-Bissau; Hong Kong SAR, China; India; Lao PDR; FYR Macedonia; Mali; Mongolia; Niger; Senegal; Togo; United Arab Emirates; Uzbekistan | Uzbekistan adopted a new law on joint stock companies and protection of shareholder rights that establishes higher standards for disclosure of related-party transactions by interested directors and requires companies to include information on such transactions in their annual reports. |
| Enhanced access to information in shareholder actions | Benin; Burkina Faso; Cameroon; Central African Republic; Chad; Comoros; Democratic Republic of Congo; Republic of Congo; Côte d'Ivoire; Equatorial Guinea; Gabon; Guinea; Guinea-Bissau; Mali; Niger; Senegal; Togo; United Arab Emirates | Senegal's code of civil procedure, amended in August 2013, now permits judges to grant requests from parties to a civil case to compel evidence from the other party, as long as they are relevant to the subject matter of the claim. |
| Expanded shareholders' role in company management | Dominican Republic; India; Republic of Korea; Switzerland | Switzerland issued a federal ordinance against abusive remuneration in publicly listed joint stock companies. The ordinance introduced multiple safeguards, including establishing compensation committees and increasing the transparency of directors' compensation schemes. |
| Increased director liability | The Gambia; India; United Arab Emirates | India's new companies act came into effect in 2014, bringing a host of enhancements, notably on the prevention of abuse by corporate insiders and company mismanagement. |
| Making it easier to enforce contracts | | |
| Increased procedural efficiency at main trial court | The Bahamas; Czech Republic; Ireland; Portugal; South Africa; Uruguay | The Bahamas and Portugal introduced new rules of civil procedure to streamline and expedite court proceedings and ensure less costly resolution of disputes. The Czech Republic, Ireland and South Africa amended the monetary thresholds for courts at different levels to reduce backlog. |
| Introduced electronic filing | Greece; Kazakhstan; Lithuania; Mauritius; Turkey | Greece, Kazakhstan, Lithuania, Mauritius and Turkey all introduced an electronic filing system for commercial cases, allowing attorneys to submit the initial summons online. |
| Introduced or expanded specialized commercial court | Benin; Seychelles | Benin established a commercial chamber within its court of first instance and assigned 6 judges to solely hear commercial cases. The Seychelles established a specialized commercial court and assigned a permanent local judge to resolve only commercial disputes. |
| Expanded court automation | Singapore | Singapore launched a new electronic litigation system that streamlines litigation proceedings. |
| Made enforcement of judgment more efficient | Kosovo | Kosovo introduced private bailiffs and strengthened its enforcement process by establishing penalties for noncompliant debtors. |
| Making it easier to resolve insolvency | | |
| Introduced a new restructuring procedure | Mozambique; Seychelles; Slovenia; Trinidad and Tobago; Uganda | Uganda established a reorganization procedure for insolvent but viable companies. |
| Strengthened creditors' rights | Kazakhstan; Mexico; Mozambique; Switzerland; Uganda | Kazakhstan expanded the rights of creditors in insolvency, making it possible for them to remove the debtor from management, nominate an insolvency representative and approve a plan for the sale of assets in case of liquidation. |
| Improved the likelihood of successful reorganization | Mexico; Seychelles; Slovenia; Switzerland | Mexico introduced provisions allowing debtors to apply for post-commencement financing, establishing priority rules for post-commencement financing and permitting debtors facing imminent insolvency to apply for reorganization proceedings. |
| Established framework for out-of-court restructuring | FYR Macedonia; Slovenia; Spain | Spain established a framework for a prebankruptcy, out-of-court payment agreement. |
| Regulated the profession of insolvency administrators | Mozambique; Trinidad and Tobago; Uganda | Trinidad and Tobago created a public office responsible for the general administration of insolvency proceedings and clarified rules on the appointment and duties of trustees. |
| Streamlined and shortened time frames for insolvency proceedings | Kazakhstan; FYR Macedonia; Mexico | FYR Macedonia tightened time frames for several stages of insolvency proceedings, including inventory and assessment of the debtor's property, submission of creditors' claims and the hearing to examine claims. |
| Improved provisions applicable to avoidable transactions | Seychelles; Uganda | The Seychelles introduced provisions allowing the avoidance of undervalued transactions or transactions made as a gift, if entered into within 2 years before the commencement of liquidation proceedings. |
| Changing labor market regulation | | |
| Altered hiring rules | Cabo Verde; Croatia; Georgia; Italy; Mauritius; Portugal | Cabo Verde introduced a minimum wage. Croatia lifted the 3-year limit on the duration of first-time fixed-term contracts. |
| Changed redundancy cost and procedures | Belgium; Croatia; Finland; France; Georgia; Portugal | Finland eliminated the requirement to notify a third party before dismissing 1 or a group of 9 redundant employees. |

Note: Reforms affecting the labor market regulation indicators are included here but do not affect the ranking on the ease of doing business.

Source: Doing Business database.



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