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CHAPTER TWENTY-TWO

THE WORLD BANK'S DOING BUSINESS INDICATORS

VALERIA PEROTTI

HOOVER INSTITUTION • STANFORD UNIVERSITY

The World Bank's Doing Business Indicators[1]

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Valeria Perotti, Program Manager, World Bank

The motivation behind the Doing Business indicators

Doing Business is founded on the principle that economic activity benefits from clear rules: rules that allow voluntary exchanges between economic actors, set out strong property rights, facilitate the resolution of commercial disputes, and provide contractual partners with protections against arbitrariness and abuse. Such rules are much more effective in promoting growth and development when they are efficient, transparent, and accessible to those for whom they are intended.

The Doing Business study benchmarks aspects of business regulation and practice using specific case studies with standardized assumptions. Its first edition, published in 2003, was inspired by the work of Peruvian economist Hernando de Soto. In the summer of 1983, a group of researchers working with de Soto went through the process of getting all the permits required to open a small garment business on the outskirts of Lima, with the goal to measure how long this would take. The result was an astonishing 289 days. De Soto's conjecture, which turned out to be right, was that measuring and reporting would create pressure for improvements in the efficiency of government. In 2002, de Soto reported that because of changes to regulations and procedures, the same business could get all the required permits in a single day.

Similar to de Soto's experiment, the Doing Business project aims to provide quantitative indicators on business regulation, to promote reform and support regulatory efficiency and transparency.

What Doing Business measures

Doing Business collects primary data – data that would not otherwise be available to the public. It captures several important dimensions of the regulatory environment affecting domestic firms. It provides quantitative indicators on regulation for 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.

The project uses standardized case studies to provide objective, quantitative measures that can be compared across 190 economies. Most indicators measure quantitative aspects such as the number of

[1] The content of this note is an adaptation from the World Bank's *Doing Business 2020* report, available at http://www.doingbusiness.org/reports.

procedures required, and the time and cost associated with such procedures. The indicators also measure aspects of regulatory quality by benchmarking laws and regulations against recognized good practices.

Table 1 – What is included in the ease of doing business ranking

Indicator set	What is measured
Starting a business	Procedures, time, cost, and paid-in minimum capital to start a limited liability company for men and women
Dealing with construction permits	Procedures, time, and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time, and cost to get connected to the electrical grid; the reliability of the electricity supply; and the transparency of tariffs
Registering property	Procedures, time, and cost to transfer a property and the quality of the land administration system for men and women
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time, and total tax and contribution rate for a firm to comply with all tax regulations as well as postfiling processes
Trading across borders	Time and cost to export the product of comparative advantage and to import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes for men and women
Resolving insolvency	Time, cost, outcome, and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency

Ensuring comparability of the data across a global set of economies is a central consideration for the Doing Business indicators, which are developed using standardized case scenarios with specific assumptions. For example, the standardized business described in the case scenario is located in the largest business city of the economy.[2] Further, the firm described in the case scenario is typically a small- to medium-sized limited liability company (or its equivalent legal form). Entrepreneurs are assumed to have complete information and to comply with all regulations. The reality is that business regulations and their enforcement may differ within a country, particularly in federal states and large economies.

Doing Business presents data both for individual indicators and for two aggregate measures: the ease of doing business score and the ease of doing business ranking.

The individual indicator scores range between 0 and 100, showing the proximity of each economy to the best regulatory performance observed in each of the topics across all economies in the Doing Business sample since 2005 (or the third year in which data were collected for the indicator). The scores (and rankings) of each economy vary considerably across topics, indicating that a strong performance by an economy in one area of regulation can coexist with weak performance in another.

Doing Business uses a simple averaging approach for weighting component indicators, calculating rankings, and determining the ease of doing business score. The ease of doing business score is obtained by a simple average of the individual indicators, first by topic and then across the 10 topics, and it shows

[2] For 11 economies with population larger than 100 million, the second largest business city is also measured.

an economy's position relative to the best regulatory performance. The ease of doing business ranking is based on the aggregate ease of doing business score and it is an indication of an economy's position relative to that of other economies.

How Doing Business data are collected

The Doing Business data are based on a detailed reading of domestic laws, regulations, and administrative requirements as well as their implementation in practice as experienced by private professionals. The data are collected through several rounds of communication with expert respondents (both private sector practitioners and government officials), through responses to questionnaires, conference calls, written correspondence, and visits by the team.

More than 48,000 professionals in 190 economies have assisted in providing the data that inform the Doing Business indicators over the past 17 years. Doing Business 2020 draws on the inputs of more than 15,000 professionals.

How Doing Business data have been used in academic research on business regulations

The design of the Doing Business indicators has been informed by theoretical insights from academic research. Background papers developing the methodology for most of the Doing Business indicator sets have established the importance of the rules and regulations that Doing Business measures for economic outcomes such as trade volumes, foreign direct investment, market capitalization in stock exchanges, and private credit as a percentage of GDP (Djankov et al. 2008, 2010, 2007).[3]

More recent results have shown that greater ease of doing business is associated with higher new business density (Divanbeigi and Ramalho 2015; Djankov et al. 2018), and lower levels of income inequality. Further, the ease of doing business matters for growth: moving from the lowest quartile of improvement in business regulations to the highest quartile is associated with a significant increase in annual per capita growth of around 0.8 percentage points (Divanbeigi and Ramalho 2015).

Academic researchers have been using the Doing Business data across the different dimensions measured. As an example:

- Improved business friendly regulations are highly correlated with reduced poverty headcount (Djankov et al. 2018);

[3] For a full list of research papers supporting the Doing Business methodology, please see: https://www.doingbusiness.org/en/methodology.

- Firms in economies with higher branch penetration and better credit information sharing have stronger incentives to operate formally (Beck et al. 2014);
- The introduction of collateral registries for movable assets is associated with increased access to finance (Love et al. 2016).
- Tax simplification helps to expand the formal economy (Monteiro and Assunção 2012), while tax complexity is associated with fewer—but not smaller—foreign direct investments (Lawless 2013).

Promoting reform

The World Bank's Doing Business team regularly engages with governments to gather information on regulatory changes, and to provide information on the study's methodology and results. In the last data collection cycle, these stakeholder engagements included 36 data collection missions, 51 visiting government delegations, and videoconferences with representatives of 103 economies.

The Doing Business report is widely read (200,000 downloads for the latest edition) and its results are followed closely by government representatives (Economist, 2019).

Consistent with de Soto's conjecture, many reforms have been recorded in the areas measured by Doing Business. Only between May 2018 and May 2019, 294 regulatory reforms were implemented by 115 economies that made it easier to do business. There were also 26 economies that became less business-friendly, introducing 31 regulatory changes that stifled efficiency and quality of regulation.

For one of the first indicators introduced by Doing Business, the starting a business indicator set, 178 economies have implemented 722 reforms since 2003/04, either reducing or eliminating barriers to entry.

Top performers and top reformers in Doing Business 2020

Economies that score highest on the ease of doing business share several common features, including the widespread use of electronic systems. All of the 20 top-ranking economies have online business incorporation processes, have electronic tax filing platforms, and allow online procedures related to property transfers. Moreover, 11 economies have electronic procedures for construction permitting. In general, the 20 top performers have sound business regulation with a high degree of transparency. The average scores of these economies are 12.2 (out of 15) on the building quality control index, 7.2 (out of 8) on the reliability of supply and transparency of tariffs index, 24.8 (out of 30) on the quality of land administration index, and 13.2 (out of 18) on the quality of judicial processes index. Fourteen of the 20 top performers have a unified collateral registry, and 14 allow a viable business to continue operating as a going concern during insolvency proceedings.

Table 2 – Ease of doing business ranking.

Rank	Economy	DB score	Rank	Economy	DB score	Rank	Economy	DB score
1	New Zealand	86.8	65	Puerto Rico (U.S.)	70.1	128	Barbados	57.9
2	Singapore	86.2	66	Brunei Darussalam	70.1	129	Ecuador	57.7
3	Hong Kong SAR, China	85.3	67	Colombia	70.1	130	St. Vincent and the Grenadines	57.1
4	Denmark	85.3	68	Oman	70.0	131	Nigeria	56.9
5	Korea, Rep.	84.0	69	Uzbekistan	69.9	132	Niger	56.8
6	United States	84.0	70	Vietnam	69.8	133	Honduras	56.3
7	Georgia	83.7	71	Jamaica	69.7	134	Guyana	55.5
8	United Kingdom	83.5	72	Luxembourg	69.6	135	Belize	55.5
9	Norway	82.6	73	Indonesia	69.6	136	Solomon Islands	55.3
10	Sweden	82.0	74	Costa Rica	69.2	137	Cabo Verde	55.0
11	Lithuania	81.6	75	Jordan	69.0	138	Mozambique	55.0
12	Malaysia	81.5	76	Peru	68.7	139	St. Kitts and Nevis	54.6
13	Mauritius	81.5	77	Qatar	68.7	140	Zimbabwe	54.5
14	Australia	81.2	78	Tunisia	68.7	141	Tanzania	54.5
15	Taiwan, China	80.9	79	Greece	68.4	142	Nicaragua	54.4
16	United Arab Emirates	80.9	80	Kyrgyz Republic	67.8	143	Lebanon	54.3
17	North Macedonia	80.7	81	Mongolia	67.8	144	Cambodia	53.8
18	Estonia	80.6	82	Albania	67.7	145	Palau	53.7
19	Latvia	80.3	83	Kuwait	67.4	146	Grenada	53.4
20	Finland	80.2	84	South Africa	67.0	147	Maldives	53.3
21	Thailand	80.1	85	Zambia	66.9	148	Mali	52.9
22	Germany	79.7	86	Panama	66.6	149	Benin	52.4
23	Canada	79.6	87	Botswana	66.2	150	Bolivia	51.7
24	Ireland	79.6	88	Malta	66.1	151	Burkina Faso	51.4
25	Kazakhstan	79.6	89	Bhutan	66.0	152	Mauritania	51.1
26	Iceland	79.0	90	Bosnia and Herzegovina	65.4	153	Marshall Islands	50.9
27	Austria	78.7	91	El Salvador	65.3	154	Lao PDR	50.8
28	Russian Federation	78.2	92	San Marino	64.2	155	Gambia, The	50.3
29	Japan	78.0	93	St. Lucia	63.7	156	Guinea	49.4
30	Spain	77.9	94	Nepal	63.2	157	Algeria	48.6
31	China	77.9	95	Philippines	62.8	158	Micronesia, Fed. Sts.	48.1
32	France	76.8	96	Guatemala	62.6	159	Ethiopia	48.0
33	Turkey	76.8	97	Togo	62.3	160	Comoros	47.9
34	Azerbaijan	76.7	98	Samoa	62.1	161	Madagascar	47.7
35	Israel	76.7	99	Sri Lanka	61.8	162	Suriname	47.5
36	Switzerland	76.6	100	Seychelles	61.7	163	Sierra Leone	47.5
37	Slovenia	76.5	101	Uruguay	61.5	164	Kiribati	46.9
38	Rwanda	76.5	102	Fiji	61.5	165	Myanmar	46.8
39	Portugal	76.5	103	Tonga	61.4	166	Burundi	46.8
40	Poland	76.4	104	Namibia	61.4	167	Cameroon	46.1
41	Czech Republic	76.3	105	Trinidad and Tobago	61.3	168	Bangladesh	45.0
42	Netherlands	76.1	106	Tajikistan	61.3	169	Gabon	45.0
43	Bahrain	76.0	107	Vanuatu	61.1	170	São Tomé and Príncipe	45.0
44	Serbia	75.7	108	Pakistan	61.0	171	Sudan	44.8
45	Slovak Republic	75.6	109	Malawi	60.9	172	Iraq	44.7
46	Belgium	75.0	110	Côte d'Ivoire	60.7	173	Afghanistan	44.1
47	Armenia	74.5	111	Dominica	60.5	174	Guinea-Bissau	43.2
48	Moldova	74.4	112	Djibouti	60.5	175	Liberia	43.2
49	Belarus	74.3	113	Antigua and Barbuda	60.3	176	Syrian Arab Republic	42.0
50	Montenegro	73.8	114	Egypt, Arab Rep.	60.1	177	Angola	41.3
51	Croatia	73.6	115	Dominican Republic	60.0	178	Equatorial Guinea	41.1
52	Hungary	73.4	116	Uganda	60.0	179	Haiti	40.7
53	Morocco	73.4	117	West Bank and Gaza	60.0	180	Congo, Rep.	39.5
54	Cyprus	73.4	118	Ghana	60.0	181	Timor-Leste	39.4
55	Romania	73.3	119	Bahamas, The	59.9	182	Chad	36.9
56	Kenya	73.2	120	Papua New Guinea	59.8	183	Congo, Dem. Rep.	36.2
57	Kosovo	73.2	121	Eswatini	59.5	184	Central African Republic	35.6
58	Italy	72.9	122	Lesotho	59.4	185	South Sudan	34.6
59	Chile	72.6	123	Senegal	59.3	186	Libya	32.7
60	Mexico	72.4	124	Brazil	59.1	187	Yemen, Rep.	31.8
61	Bulgaria	72.0	125	Paraguay	59.1	188	Venezuela, RB	30.2
62	Saudi Arabia	71.6	126	Argentina	59.0	189	Eritrea	21.6
63	India	71.0	127	Iran, Islamic Rep.	58.5	190	Somalia	20.0
64	Ukraine	70.2						

More than half of the economies in the top-20 cohort are from the OECD high-income group; however, the top-20 list also includes four economies from East Asia and the Pacific, two from Europe and Central Asia, as well as one from the Middle East and North Africa and one from Sub-Saharan Africa. Conversely, most economies (12) in the bottom 20 are from the Sub-Saharan Africa region. Encouragingly, several of the lowest-ranked economies are actively reforming in pursuit of a better business environment. In contrast to the economies ranked in the top 20, however, the bottom 20 implemented only 10 reforms in 2018/19.

The economies with the most notable improvement in Doing Business 2020 are Saudi Arabia, Jordan, Togo, Bahrain, Tajikistan, Pakistan, Kuwait, China, India, and Nigeria. These economies implemented a total of 59 regulatory reforms in 2018/19—accounting for one-fifth of all the reforms recorded worldwide. Their efforts focused primarily on the areas of starting a business, dealing with construction permits, and trading across borders.

Table 3 – The 10 economies improving the most across three or more areas measured by Doing Business in 2018-19.

Economy	Ease of doing business rank	Change in ease of doing business score	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
Saudi Arabia	62	7.7	✔	✔	✔		✔	✔		✔	✔	✔
Jordan	75	7.6					✔		✔			✔
Togo	97	7.0	✔	✔	✔	✔	✔					
Bahrain	43	5.9		✔	✔	✔	✔	✔	✔	✔	✔	✔
Tajikistan	106	5.7	✔				✔			✔		
Pakistan	108	5.6	✔	✔	✔	✔			✔	✔		
Kuwait	83	4.7	✔	✔	✔	✔	✔	✔		✔		
China	31	4.0	✔	✔	✔			✔	✔	✔	✔	✔
India	63	3.5	✔	✔						✔		✔
Nigeria	131	3.4	✔	✔	✔	✔				✔	✔	

What is next

After some early rounds of pilot data collection, the Doing Business project has been collecting data on the efficiency of public procurement since 2017, and is planning on introducing the Contracting with the Government indicator into the ease of doing business ranking.

Worldwide, public procurement accounts for 10-25% of GDP, and governments spend cumulatively approximately USD 9.5 trillion in public contracts every year. According to most recent data, in OECD member countries procurement accounts for 13.2% of general government expenditures, while developing countries account for over USD 820 billion annually of public procurement spending.

In many sectors, such as transport, infrastructure or education services, public authorities are the principal buyers. For businesses of all sizes in all sectors, the government is a potential customer. And for governments, public procurement is a unique instrument to shape public policy and pursue better allocation of public funds; increased transparency and policymakers' accountability; healthier competition among suppliers; sustainable development; and the fulfillment of international obligations. Inefficient public procurement compromises market access and competition, and raises the price paid by public entities for goods and services, directly impacting public expenditures and therefore taxpayers' resources. Recent studies have shown that inefficiencies in public procurement, including corruption, cause significant welfare losses. In the EU alone, 5 billion are loss each year due to corruption in public procurement (European Parliament, 2016). Average cost overruns can range from 20% to 135% of the initial price of the project in developing economies.

The sheer size of the procurement market for businesses of all sizes – together with the government's unique purchasing power and financial caliber – explains the importance of introducing an indicator benchmarking public procurement in the Doing Business study.

The case study of the indicator focuses on the procurement of road works. This focus was chosen due to the central role the infrastructure sector plays in the development of an economy: worldwide, construction is a USD 1.7 trillion industry. Government investment in the road sector alone accounts for between 2 to 3.5% of GDP. Also, infrastructure projects have a direct impact on a country's economic growth. A strong infrastructure sector promotes trade, connects communities to business centers and creates jobs.

Procurement of road work was also chosen because of its comparability. The procurement contract is for the simple re-pavement of a 2-lane road (a need that most public sectors face quite frequently). The indicator benchmarks efficiency and rules. For efficiency, number of procedures and time to complete them are used as efficiency estimates. Rules measure key aspects of public procurement that are recommended by internationally recognized standards, including e-procurement.

The data collected by the indicator can provide governments with a unique source of reliable and comparable data on public procurement systems, which can inform important reforms to create enabling environments for private sector –led growth and to guarantee a more efficient allocation of public funds.

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VALERIA PEROTTI
WORLD BANK

Valeria Perotti is the Program Manager of the Doing Business unit at the World Bank. She joined the team in December 2019, after holding several positions within the World Bank, including Senior Economist with the Enterprise Surveys team, where she led the implementation of the survey in East Asia, the Pacific, Europe and Central Asia, and she analyzed firm-level productivity in conjunction with skills and training issues. Perotti also worked in the former Human Development Network of the World Bank, where she managed the Russia Trust Fund survey to develop methods for measuring financial capability.

Perotti holds a PhD in Econometrics and Empirical Economics from Tor Vergata University in Rome, and her research has focused on firm productivity, skills, labor market regulations, informality, life expectancy and applied microeconometrics.

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