Doing Business 2016

About *Doing Business*

Economic activity requires sensible rules that encourage firm start-up and growth and avoid creating distortions in the marketplace. *Doing Business* focuses on 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* measures the presence of 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, it diverts the energies of entrepreneurs away from developing their businesses. But where regulation is efficient, transparent and implemented in a simple way, it becomes easier for businesses to innovate and expand—and easier for aspiring entrepreneurs to compete on an equal footing. Indeed, *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.

Doing Business was designed with two main types of users in mind: policy makers and researchers.[1] It is a tool that governments can use to design sound business regulatory policies. Nevertheless, the *Doing Business* data are limited in scope and should be complemented with other sources of information. *Doing Business* focuses on a few specific rules relevant to the specific case studies analyzed. These rules and case studies are chosen to be illustrative of the business regulatory environment, but they are not a comprehensive description of that environment. *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.

WHAT DOES *DOING BUSINESS* MEASURE?

Doing Business captures several important dimensions of the regulatory environment as it applies to local 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 (table 2.1). *Doing Business* also measures features of 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

- *Doing Business* measures aspects of business regulation affecting 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 features of labor market regulation, which is not included in these two 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 is covered.
- The subnational *Doing Business* studies complement the global report by going beyond the largest business city in selected economies.
- *Doing Business* relies on four 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.

ranking on the ease of doing business. It does present the data for these indicators.

Four sets of indicators—dealing with construction permits, getting electricity, registering property and enforcing contracts—have been expanded for this year's report to measure aspects of regulatory quality. One indicator set—trading across borders—has been redesigned to increase the relevance of what is measured. (For details on what is new in these indicator sets, see the chapter on what is changing in *Doing Business*.)

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

Indicator set	What is measured
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 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 cost of electricity consumption
Registering property	Procedures, time and cost to transfer a property and the quality of the land administration system
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 rate for a firm to comply with all tax regulations
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
Labor market regulation	Flexibility in employment regulation and aspects of job quality

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 135 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.

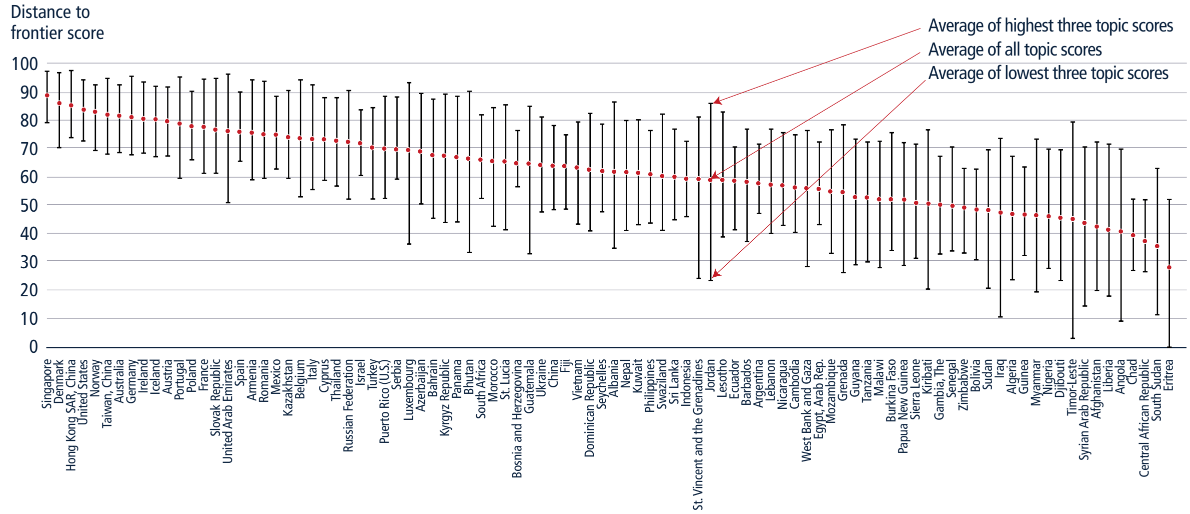
The design of the *Doing Business* indicators has also been informed by theoretical insights gleaned from extensive research and the literature on the role of institutions in enabling economic development. In addition, the background papers developing the methodology for each of the *Doing Business* indicator sets have established the importance of the rules and regulations that *Doing Business* focuses on 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 two 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 were collected for the indicator. (For indicators calculated as scores, such as the strength of legal rights index or the quality of land administration index, the frontier is set at the highest possible value.) 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*. The distance to frontier is first computed for each topic and then averaged across all topics to compute the aggregate distance to frontier score. The ranking on the ease of doing business complements the distance to frontier score by providing information about an economy's performance in business 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] Each topic covered by *Doing Business* relates to a different aspect of the business 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 (figure 2.1). 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). The Kyrgyz Republic, for example, has an overall distance to frontier score of 66.01, meaning that it is two-thirds of the way from the worst to the best performance. Its distance to frontier score is 92.94 for

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



Source: Doing Business database.

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. The 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 scores for each *Doing Business* topic for all economies.

starting a business, 90.59 for registering property and 79.98 for dealing with construction permits. At the same time, it has a distance to frontier score of 34.66 for resolving insolvency, 43.95 for getting electricity and 49.49 for enforcing contracts.

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, market size, macroeconomic stability, the state of the financial system, the prevalence of bribery and corruption 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 time and cost required for the logistical process of exporting and importing goods, but they do not measure the cost of tariffs or of the international transport. 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). Similar to the indicators on trading across borders, those on starting a business or protecting minority investors do not cover all aspects of commercial legislation. And while *Doing Business* measures only a few aspects within each area that it covers, business regulation reforms should not focus just on these aspects, because those that it does not measure are still important.

TABLE 2.2 What *Doing Business* does not cover

Examples of areas not covered
Macroeconomic stability
State of the financial system
Level of training and skills of the labor force
Prevalence of bribery and corruption
Market size
Security
Examples of aspects not included within the areas covered
In paying taxes, personal income tax rates
In getting credit, the monetary policy stance and the associated ease or tightness of credit conditions for firms
In trading across borders, export or import tariffs and subsidies

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 quality and efficiency in business regulation 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 certain aspects of 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. 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 starting in last year's report, *Doing Business* has extended its coverage to the second largest business city in economies with a population of more than 100 million as of 2013.

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.

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 will not achieve the full results desired

a. In economies with a population of more than 100 million as of 2013, *Doing Business* covers business regulation in both the largest business city and the second largest one.

Some *Doing Business* topics are complex, 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. There are two reasons for this assumption. First, private, limited liability companies are 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.[5] 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.[6] 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.

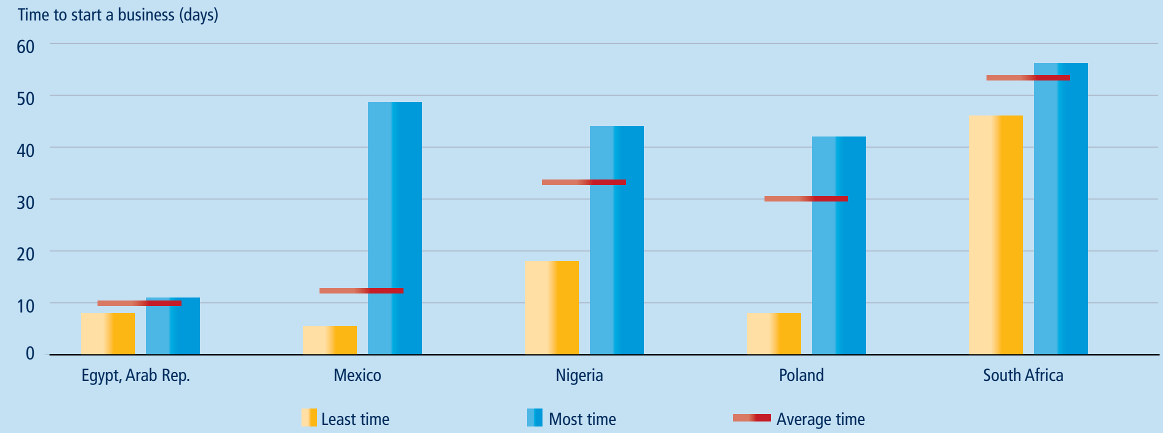
Rules and regulations fall under the direct control of policy makers—and they are often where policy makers start when intending to change the set of incentives under which businesses operate. *Doing Business* not only shows where problems exist in the regulatory framework; it also points to specific regulations or regulatory procedures that may lend themselves to reform. And its quantitative measures enable research on how specific regulations

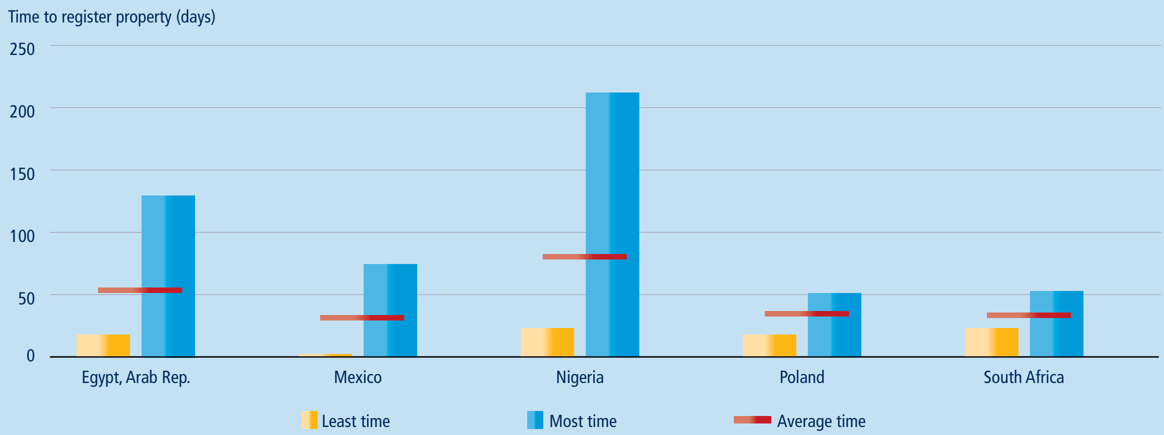
BOX 2.1 Comparing regulation at the local level: subnational *Doing Business* studies

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 South Africa) or a region (as in Central America). Projects are undertaken at the request of governments.

Data collected by subnational studies over the past two years show that there can be substantial variation within an economy (see figure). In Mexico in 2013, for example, registering a property transfer took as few as 2 days in Colima and as many as 74 in Mexico City. Indeed, within the same economy one can find locations that perform as well as economies ranking in the top 20 on the ease of registering property and locations that perform as poorly as economies ranking in the bottom 40 on that indicator.

Different locations, different regulatory processes, same economy





Source: Subnational *Doing Business* database.

Note: The average time shown for each economy is based on all locations covered by the data: 15 locations and governorates in the Arab Republic of Egypt in 2013, 31 states and Mexico City in Mexico in 2013, 36 cities in Nigeria in 2014, 18 cities in Poland in 2014 and 9 cities in South Africa in 2015.

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

(continued)

BOX 2.1 Comparing regulation at the local level: subnational *Doing Business* studies *(continued)*

- 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 437 locations in 65 economies, including Colombia, the Arab Republic of Egypt, Italy, the Philippines and Serbia. Fifteen economies—including Indonesia, Mexico, Nigeria and the Russian Federation—have undertaken two or more rounds of subnational data collection to measure progress over time. This year subnational studies were completed in the Dominican Republic, Poland, South Africa, Spain and six countries in Central America. Ongoing studies include those in Afghanistan (5 cities), Kenya (10 cities), Mexico (31 states and Mexico City) and the United Arab Emirates (3 emirates).

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

affect firm behavior and economic outcomes.

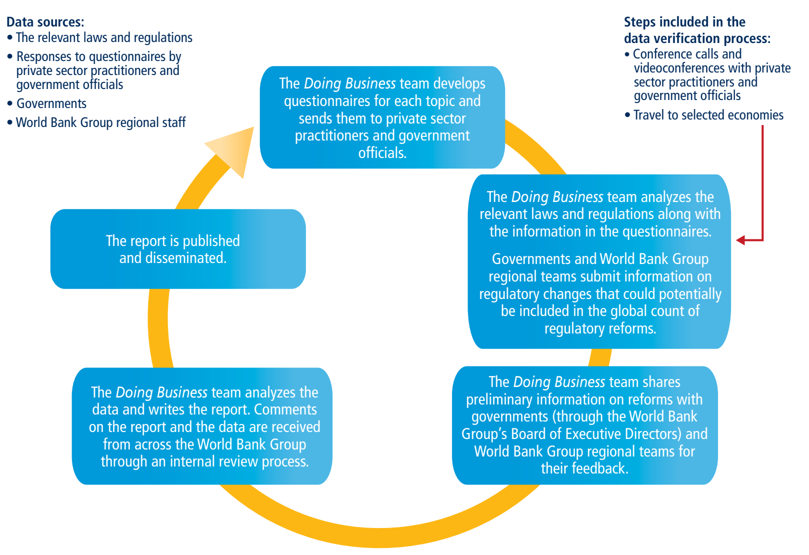
Many of the *Doing Business* indicators can be considered "actionable," measuring aspects over which governments have direct control. For example, governments can reduce (or even eliminate) the minimum capital requirement for new firms. They can invest in company and property registries to increase the 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.[7] And *Doing Business* data do not indicate which indicators are more "action-worthy" than others. 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 they should be doing so at the expense of other worthy economic and social goals.

HOW ARE THE DATA COLLECTED?

The *Doing Business* data are based on a detailed reading of 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,

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



conference calls, written correspondence and visits by the team. *Doing Business* relies on four 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, around 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 extensive data checking, which involves an annual update of an established database, having very large samples of respondents is not necessary for these types of questions. In principle, the role of the contributors is largely advisory—helping the *Doing Business* team in finding and understanding the 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 by respondents on what actual practice looks like. When respondents disagree, the time indicators reported by *Doing Business* represent the median values of several responses given under the assumptions of the standardized case.

Doing Business respondents

Over the past 13 years more than 33,000 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 11,400 professionals.[10] Table 13.2 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 bureau or registry 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 other 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.

Doing Business does not survey firms for two 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 they have gone through the process themselves. But a litigation lawyer should have little 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 descriptions of regulatory reforms with governments (through the World Bank Group's Board of Executive Directors) and with regional staff of the World Bank Group. Through this process government authorities and World Bank Group staff working on most of the 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 2014 to October 2015 the team received and responded to more than 170 queries on the data. If changes in data are confirmed, they are immediately reflected on the website.

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. For more details, see the chapter on the distance to frontier and ease of doing business ranking.
5. Hallward-Driemeier and Pritchett 2015.
6. Schneider 2005; La Porta and Shleifer 2008.
7. One study using *Doing Business* indicators illustrates the difficulties in using highly disaggregated indicators to identify reform priorities (Kraay and Tawara 2013).
8. For the law library website, see 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 more than 11,400 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 14,100 which represents a true measure of the inputs received. The average number of contributions per indicator set and economy is just under seven. For more details, see http://www.doingbusiness.org/contributors/doing-business.