

# The Doing Business Project

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## Executive Summary

Improving the investment climate – the opportunities and incentives for firms to invest productively, create jobs, and expand – is the key to sustainable progress in attacking poverty and improving living standards. The Doing Business project has provided policymakers, the aid community, investors, and researchers with a set of indicators, annual data, and an in-depth analysis to enable countries to benchmark their regulatory environment for business, assess the impact of laws and regulations on business activity, make informed decisions regarding policy reform and private investment, identify best practices in regulatory reform, and support research on institutions and regulation.

In the realm of results management, it is critical to design projects and programs using intermediate outcomes in which attribution between the intervention and the achievement of results is tighter, allowing for true management of the operations. In the context of the results agenda, the key contribution is therefore that these tools can be used for management decision making, as well as for reporting and accountability purposes. One way to measure the success of this tool will be in terms of use and demand. Increasingly, the Doing Business indicators are being used and are in demand across countries and donors.

This case, unlike others in this Sourcebook, is not strictly about achieved results on the ground. Rather, it is about a project that successfully provides tools to manage for results in other operations. It starts as an analytic project that is enabling results-focused interventions. For that purpose, it provides findings and policy recommendations for goal-oriented actions. It identifies intermediate outcomes, and supplies intermediate outcomes indicators to enable management toward those goals through the use of baseline data and targets.

### The Challenge: To Understand What Makes a Private Sector Work – and For Whom?

A vibrant private sector – with firms making investments, creating jobs, and improving productivity – promotes growth and expands opportunities for poor people. To create such private sectors, governments around the world have implemented wide-ranging reforms, including macrostabilization programs, price liberalization, privatization, and trade barrier reductions. Yet, in many countries, entrepreneurial activity remains limited, poverty high, and growth stagnant. Meanwhile, other countries have spurned orthodox macro reforms and done well. How so?

Although macro policies are unquestionably important, a consensus is growing that the quality of business regulation and the institutions that enforce it are similarly crucial to the question of distribution and prosperity. Hong Kong (China)'s economic success, Botswana's stellar growth performance, and Hungary's smooth transition experience have all been stimulated by favorable regulatory environments. Yet little research has measured specific aspects of regulation or analyzed regulation's impact on economic outcomes such as productivity, investment, informality, corruption, unemployment, and poverty. The lack of

systematic knowledge prevents policymakers from assessing how good a legal and regulatory system actually is, and in turn, what needs to be reformed.

### Objectives: What Doing Business Aims to Do

In exploring how a private sector works – and how it can work better – the objective of the Doing Business project is to advance the private sector development agenda in several ways:

#### *Motivating reforms through country benchmarking.*

Around the world, international and local benchmarking has proved to be a powerful force for mobilizing society to demand improved public services, enhanced political accountability, and better economic policy. Transparent scoring on macroeconomic and social indicators has intensified the desire for change – witness the impact of the human development index, developed by the United Nations Development Program, on getting countries to emphasize health and education in their development strategies. The Doing Business data provide reformers with comparisons on a different dimension: the regulatory environment for business.



**Informing the design of reforms.** The data analyzed in Doing Business highlight specifically what needs to be changed when designing reforms, because the indicators are backed by an extensive description of regulations. Reformers can also benefit from reviewing the experience of countries that perform well according to the indicators.

**Enriching international initiatives on development effectiveness.** Recognizing that aid works best in good institutional environments, international donors are moving toward more extensive monitoring of aid effectiveness and performance-based funding. The U.S. government's Millennium Challenge Account and the International Development Association's performance-based funding allocations are two examples. It is essential that such efforts be based on good-quality data that can be influenced directly by policy reform. This is exactly what Doing Business indicators provide.

**Informing theory.** Regulatory economics is largely theoretical. By producing new indicators that quantify various aspects of regulation, Doing Business facilitates tests of existing theories and contributes to the empirical foundation for new theoretical work on the relation between regulation and development.

### Problems Encountered

When conceiving the set of indicators for the Doing Business project, the team faced problems related to the methodology required to make the data representative, as well as the set of assumptions needed to make data comparable across countries:

**Limitations in the methodology.** The Doing Business methodology has three limitations that should be considered when interpreting the data. First, in many cases the collected data refer to businesses in the country's most populous city and may not be representative of regulatory practices in other parts of the country. Second, the data often focus on a specific business form – the limited liability company – and may not be representative of regulation on other businesses, for example sole proprietorships. Finally, some indicators – time, for example – involve an element of judgment by the expert respondents. The time indicators reported in Doing Business (World Bank, 2004) represent median perceived values of several respondents under the assumptions of the case study.

**Assumptions.** In the Doing Business 2004 report, several assumptions were used to make the procedures comparable across countries. These assumptions are related to facilitators, voluntary procedures, nonmandatory lawful shortcuts, industry-specific requirements, and utilities. In the Doing Business 2005 re-

port, other assumptions about procedures, about the case, and about the business were made for the same purpose.

### Factors for Success

**Simple but strong methodology.** The analytic work is built on a simple methodology in order to analyze different topics around the firm's activity. Although it contains certain limitations for pragmatic reasons, the methodology is sufficiently strong so that findings credibly represent business activity in each analyzed country.

**Comparability across countries.** The usefulness of the system is that it provides (based on the methodology and the assumptions made) a common set of indicators that enables cross-country comparison.

**Policy orientation of the findings.** Each report is focused around the findings and what to do about them, that is, their policy implications. Thus, the theoretical work has clear and direct practical implications for countries and aid agencies.

**Practical and managerial approach of the project.** Perhaps the strongest element contributing to the success of this exercise is the tools it provides so that users can manage proposed interventions toward desired outcomes. Though important, the descriptive power of the Doing Business methodology, and even policy recommendations, are less important. These critical tools include the definition of intermediate outcomes and baseline values, and the setting of management targets.

### Lessons Learned

Both reports (Doing Business 2004 and Doing Business 2005) are rich in findings and lessons learned. These findings are the cornerstone for the design and implementation of policies and interventions that countries can adopt. The indicators and their data will help measure the progress of those policies.

Analysis in Doing Business 2004 leads to three main findings:

**Poor countries are the most extreme in regulation of business environments.** Poor countries tend to regulate business far more than richer countries, and this regulation is burdensome in nearly every area of business activity. Five sets of indicators were studied: starting a business, hiring and firing workers, enforcing contracts, getting credit, and closing a business. Across each set of indicators, poorer countries (Bolivia, Burkina Faso, Chad, Costa Rica, Guatemala, Mali, Mozambique, Paraguay, the Philippines, and Venezuela) regulate more heavily than richer countries



(Australia, Canada, Denmark, Hong Kong–China, Jamaica, the Netherlands, New Zealand, Singapore, Sweden, and the United Kingdom). There are exceptions. Among the least regulated economies, Jamaica has aggressively adopted best-practice regulation over the past two decades. Contract enforcement, for example, has been improved in line with the latest reforms in the United Kingdom, and bankruptcy law has been revised following the Australian reforms of 1992.

**Heavier regulation produces bad outcomes.** Heavier regulation is generally associated with greater inefficiency in public institutions. That means longer delays and higher cost – with more unemployed people and corruption, and less productivity and investment. Heavy regulation seldom correlates with more and higher quality of private and public goods. The countries that regulate the most – that is, poorer countries – have the least enforcement capacity. That translates to fewer checks and balances in government to ensure that regulatory discretion is not used primarily to abuse businesses and extract bribes.

**One size can fit all – at least in the matter of business regulation.** Many times what works in developed countries also works well in developing countries, defying the oft-repeated truism that “one size doesn’t fit all.” There are many examples – for example, regulations on entering into business. It appears that minimalism in procedures works well across the board. In regard to statistical registration and tax and social security registration, the use of the latest technology for electronic registration has produced excellent results – not only in wealthier countries such as Canada and Singapore, Latvia and Mexico, but also in Honduras, Vietnam, Moldova, and Pakistan. Similarly, designing credit information registries has democratized credit markets not only in Belgium and Taiwan–China, but also in Mozambique, Namibia, Nepal, Nicaragua, and Poland.

### Doing Business 2005 reports three other significant findings

**Businesses in poor countries face much heavier regulatory burdens than those in rich countries.** It takes 153 days to register a business in Maputo, but 2 days in Toronto. It costs \$2,042 (126 percent of the debt value) to enforce a contract in Jakarta, but \$1,300 (5.4 percent of the debt value) to do so in Seoul. It takes 21 procedures to register commercial property in Abuja, but 3 procedures in Helsinki. If a debtor becomes insolvent and enters bankruptcy, creditors would get 13 cents on the dollar in Mumbai, but more than 90 cents in Tokyo. Borrowers and lenders are entitled to 10 main types of legal rights in Singapore,

but only 2 in Yemen. These differences persist across the world: the countries that most need entrepreneurs to create jobs and boost growth – poor countries – put the most obstacles in their way.

**Heavy regulation and weak property rights exclude the poor from doing business.** In “The Mystery of Capital” (2000), Hernando de Soto details the damaging effects of heavy business regulation and weak property rights. With burdensome entry regulations, few businesses bother to register. Instead, they choose to operate in the informal economy. Facing high transaction costs to get formal property title, many would-be entrepreneurs own informal assets that cannot be used as collateral to obtain loans. The solution: simplify business entry and get titles to property. But many titling programs aimed at bringing assets into the formal sector have not had the lasting impact that reformers hoped for. While it is critical to encourage registration of assets, it is as important – and harder – to stop them from slipping back into the informal sector and to use their formal status to gain access to credit.

When registering property, the benefits are much greater if formalized property rights are accompanied by improvements in land registry, collateral registry, the courts, and employment regulation. If the formal cost of selling the property is high, titles will lapse by being traded informally. In Nigeria and Senegal, that cost amounts to about 30 percent of the property value. And even when a formal title is well established, increased access to credit will not help if courts are inefficient, collateral laws are poor, and credit information systems do not exist, because no one would be willing to lend. Add rigid employment regulation to the obstacles, and few people will end up being hired. Women, young workers, and low-skilled workers are hurt the most: their only choice is to seek jobs in the informal sector.

**Payoffs from reform appear large.** Hypothetical improvement on all aspects of the Doing Business indicators – in other words, to match the top quartile of countries – is associated with an estimated increase of 1.4 to 2.2 percentage points in annual economic growth. This is after controlling for other factors, such as income, government expenditure, investment, education, inflation, conflict, and geographic regions. In contrast, improving to the level of the top quartile of countries on macroeconomic and education indicators is associated with 0.4 to 1.0 more percentage points in growth. How significant is the impact of regulatory reform? Very. Only 24 of the 85 poor countries averaged at least 2 percent growth in the last 10 years. China, the most prominent among the 24, scores higher on the ease of doing business than Argentina,



Brazil, Indonesia, or Turkey. Economic growth is only one benefit of better business regulation and property protection. Human development indicators are higher as well. Governments can use revenues to improve their health and education systems, rather than support an overblown bureaucracy.

The gains from less regulation come from two directions. First, businesses spend less time and money on dealing with regulations and chasing after scarce sources of finance. Instead, they spend their energies on producing and marketing their goods. Second, the government can spend less on regulating and more on providing basic social services. What would happen if these countries were to reduce red tape by a moderate 15 percent? The savings would amount to between 1.2 percent and 1.8 percent of total government expenditures, or approximately half of the public health budget.

### Results Achieved

The Doing Business project has successfully motivated reforms through country benchmarking, informing the design of reforms, enriching international initiatives on development effectiveness, and informing theory. Countries and aid agencies have gained systematic knowledge that enables policymakers to identify hurdles and determine what to reform. It is therefore delivering results.

The Doing Business project's major contribution to broader results-based management is provision of a set of tools that can be applied in other development interventions. These tools include identification of key intermediate outcomes that can be tightly attributed to interventions, the development of indicators to measure intermediate outcomes, and the supply of comparable data for indicators across countries and over time.

One way to measure success is by assessing the extent to which these tools are demanded and used. The Doing Business indicators are increasingly being utilized by the World Bank Group's projects and programs. Examples include: Country Assistance Strategies in Chad and Macedonia; Bulgaria's Programmatic Adjustment Loan; Brazil's competitiveness loan; structural adjustment loans in India and Colombia; technical assistance work in Bolivia, China, Indonesia, and Mexico; the Global Monitoring Report; and the IDA Results Measurement System.

Donors are employing these tools for other purposes – for example, allocating aid, monitoring progress toward results, or knowing what to export. Use by donors includes Denmark, the Netherlands, Sweden, the United Kingdom, the European Bank for Reconstruc-

tion and Development, and the Millennium Challenge Account. Finally, governments as diverse as Jordan, Korea, Mozambique, Nicaragua, and Serbia and Montenegro are starting to use these tools to manage for development results by themselves – for example, in elaborating Poverty Reduction Strategy Papers. Across the board, the donor community is increasingly being held accountable for its efforts.

The Doing Business indicators are coming to be known and used all over the world. More than 750 media stories have covered them. The bilateral aid agencies of Denmark, Norway, the Netherlands, and the United States have adopted them. A dozen more countries – including Mauritius, Bahrain, Estonia, Gabon, Iceland, and Tonga – have asked to be included in the report.

Widening global understanding of the importance of a healthy business environment will assist bilateral and multilateral donors, as well as countries, to manage for development results. In addition, it will help make the donor community more accountable for their efforts at the country level. Early results of particular reforms that contribute to private sector development are already observable across countries, including Ethiopia (cost of business start-up), Estonia (role of the notaries), Brazil (bankruptcy and business start-up), China (credit registries and collateral law), Jordan (contract enforcement), Mexico (monitoring reforms), and Cambodia (minimum capital requirements).

The strong link or attribution between the interventions and the achievement of intermediate outcomes provides a powerful management and accountability tool. It will enable users to measure progress toward intermediate outcomes, while maintaining the overall direction toward the higher order outcomes that are directly linked to them – for example, Millennium Development Goals and Poverty Reduction Strategy Paper goals. Specifically, management of projects and programs is possible through selection of a set of some of these intermediate outcomes and the setting of targets.

### Conclusion

Unlike other cases in this Sourcebook, the Doing Business project is not strictly about results achieved on the ground, but rather about providing tools to manage for results in other operations. It starts as an analytic exercise that is enabling results-focused interventions. That is, it provides findings and policy recommendations for goal-oriented actions. It identifies intermediate outcomes and supplies intermediate outcome indicators to enable management toward those goals through the use of baseline data and targets.



As expressed in the third core principle of this Sourcebook (Keep the results reporting system as simple, cost-effective, and user-friendly as possible), the Doing Business project provides a simple, easy-to-understand tool with comparable data across time and countries that enables the reporting of country progress toward results. In addition, the fifth core principle highlights the need to use results information for management learning and decision making, as well as for reporting and accountability. In this context, the Doing Business project provides a powerful management tool for donors and countries that helps the decision making and reporting process and increases donors' and countries' accountability.

In the realm of results management, it is critical to design projects and programs using intermediate outcomes in which attribution between intervention and the achievement of an outcome is tighter, allowing true management of the operations. In the context of the results agenda, therefore, the key contribution is that these tools can be used for management decision making as well as for reporting and accountability purposes. One way to measure the success of this toolkit will be to measure it in terms of use and demand. The Doing Business indicators are increasingly being used and demanded across countries and donors.

These tools have been developed for private sector development, yet a similar approach could be applied to other practice areas related to economic development. Using this work as a model and applying it to the specific circumstances of other practice areas, a similar analytic work could provide findings and similar tools on which to build sound reforms, and use the tools to allow a process to manage for those outcomes.

Looking ahead, two key issues require more discussion. First, how to make the transition from an in-house, donor-supported program to one that countries fully own, maintain, and finance? One challenge will involve stimulating country demand for these data, and then setting up the necessary country systems and capacity to allow recipients to continue the collection and use of these indicators for their own management processes. Second, how can the effort invested in this project be gauged in terms of the resources deployed? In potentially replicating this exercise, teams might like to have a benchmark – not only for benefits, but also for costs.

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