

## CHAPTER 1

# About *Doing Business*

- ◆ *Doing Business* measures aspects of business regulation affecting small domestic firms located in the largest business city of 190 economies. In addition, for 11 economies a second city is covered.
- ◆ *Doing Business* covers 12 areas of business regulation. 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 ease of doing business score and ease of doing business ranking. *Doing Business* also measures regulation on employing workers and contracting with the government, which are not included in the ease of doing business score and ranking.
- ◆ More than 48,000 professionals in 190 economies have assisted in providing the data that inform the *Doing Business* indicators.

**D***oing 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.

Rules create an environment where new entrants with drive and innovative ideas can get started in business and where productive firms can invest, expand, and create new jobs. The role of government policy in the daily operations of small and medium-size domestic firms is a central focus of the *Doing Business* data. The objective is to encourage regulation that is efficient, transparent, and easy to implement so that businesses can thrive. *Doing Business* data focus on 12 areas of regulation affecting small and medium-size domestic firms in the largest business city of an economy. The project uses standardized case studies to provide objective, quantitative measures that can be compared across 190 economies.

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## What *Doing Business* measures

*Doing Business* 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 (table 1.1). *Doing Business* also measures aspects of employing workers and contracting with the government (public procurement), which are not included in the ranking.

### How the indicators are selected

The design of the *Doing Business* indicators has been informed by theoretical insights gleaned from extensive research.<sup>1</sup> In addition, 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.<sup>2</sup>

Some *Doing Business* indicators give a higher score for more regulation and better-functioning institutions (such as courts or credit bureaus). Higher scores are given for stricter disclosure requirements for related-party transactions, for example, in the area of protecting minority investors. Higher scores are also given for a simplified way of applying regulation that keeps compliance costs for firms low—such as by easing the burden of business start-up formalities with a one-stop shop or through a single online portal. Finally, the scores reward economies that apply a risk-based approach to regulation as a way to address social and environmental concerns—such

**TABLE 1.1** What *Doing Business* measures—12 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 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
Employing workers	Flexibility in employment regulation
Contracting with the government	Procedures and time to participate in and win a works contract through public procurement and the public procurement regulatory framework

*Note:* The employing workers and contracting with the government indicator sets are not part of the ease of doing business ranking in *Doing Business 2020*.

as by placing a greater regulatory burden on activities that pose a high risk to the population and a lesser one on lower-risk activities. Thus, the economies that rank highest on the ease of doing business are not those where there is no regulation, but those where governments have managed to create rules that facilitate interactions in the marketplace without needlessly hindering the development of the private sector.

*Doing Business 2020* does not introduce any new metrics. The assumptions of the protecting minority investors indicator set, however, refocused on corporate governance for listed companies so that, if an economy does not have an active stock exchange with at least 10 listings that are not state-owned, no points are given under the extent of shareholder governance index. Economies are assessed on the same practices as before.

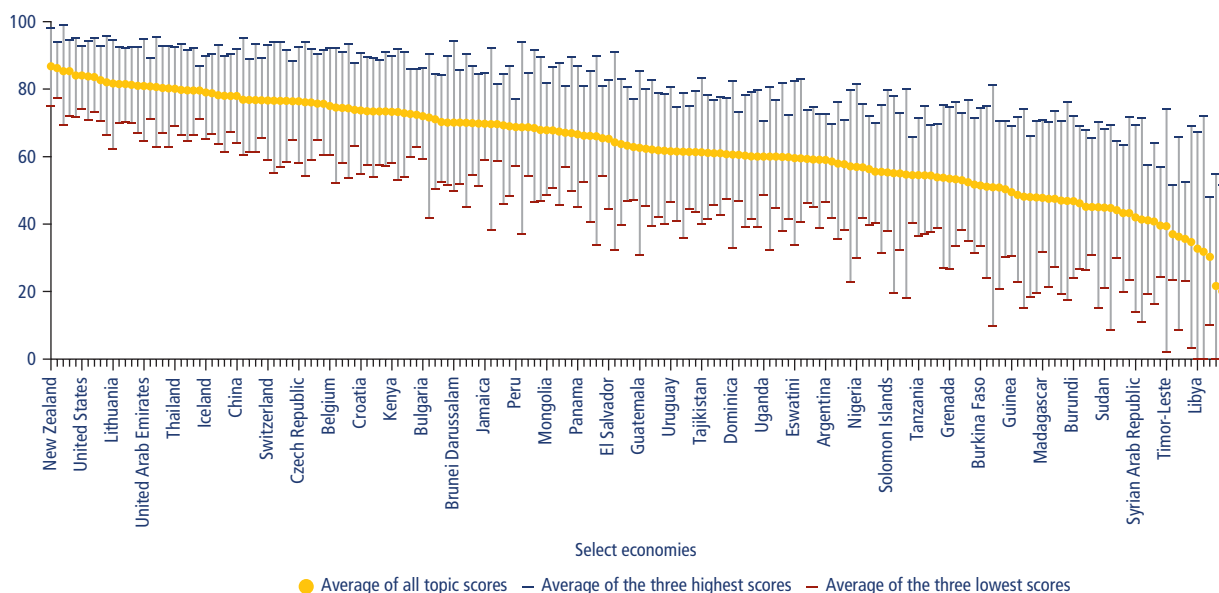
### **The ease of doing business score and ease of doing business ranking**

To provide different perspectives on the data, *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 ease of doing business score aids in assessing the absolute level of regulatory performance and how it improves over time. The individual indicator scores show the distance of each economy from the best regulatory performance observed in 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. The best regulatory performance is set at the highest possible value for indicators calculated as scores, such as the strength of legal rights

index or the quality of land administration index. This approach underscores the gap between a particular economy's performance and the best regulatory performance at any time and is used to assess the absolute change in the economy's regulatory environment over time as measured by *Doing Business* (see chapter 7 on the ease of doing business score and ease of doing business ranking). The ranking on the ease of doing business complements the ease of doing business score by providing information about an economy's performance in business regulation relative to the performance of other economies as measured by *Doing Business*.

*Doing Business* uses a simple averaging approach for weighting component indicators, calculating rankings, and determining the ease of doing business score.<sup>3</sup> Each topic covered by *Doing Business* relates to a different aspect of the business regulatory environment. 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 (figure 1.1). One way to assess the variability of an economy's regulatory performance is to look at its scores across topics. Panama, for example, has an overall ease of doing business score of 66.6, meaning that it is about two-thirds of the way up the range from the worst to the best performance. It scores highly at 92.0 on starting a business,

**FIGURE 1.1** An economy's regulatory environment may be more business-friendly in some areas than in others



Source: *Doing Business* database.

Note: The scores reflected are those for the 10 *Doing Business* topics included in this year's aggregate ease of doing business score. The figure is illustrative only; it does not include all 190 economies covered by *Doing Business 2020*. See the *Doing Business* website for the scores for each *Doing Business* topic for all economies.

85.5 on trading across borders, and 83.5 on getting electricity. At the same time, it has a score of 49.0 for enforcing contracts, 46.7 for paying taxes, and 39.5 for resolving insolvency.

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## Advantages and limitations of the methodology

The *Doing Business* methodology is designed to be an easily replicable way to benchmark specific characteristics of business regulation—how they are implemented by governments and experienced by private firms on the ground. Its advantages and limitations should be understood when using the data.

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. One such assumption is the location of a standardized 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. Gathering data for every relevant jurisdiction in each of the 190 economies covered by *Doing Business* is infeasible. Nevertheless, where policy makers are interested in generating data at the local level, beyond the largest business city, and learning from local good practices, *Doing Business* has complemented its global indicators with subnational studies. Also, starting with *Doing Business 2015*, coverage was extended to the second-largest 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. Although such assumptions come at the expense of generality, they also ensure the comparability of data. Some *Doing Business* topics are complex, so it is important that the standardized cases are defined carefully. 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 be aware of what needs to be done or how to comply with regulations and may lose considerable time trying to find out. Alternatively, they may intentionally avoid compliance—by not registering for social security, for example. Firms may opt for bribery and other informal arrangements intended to bypass the rules where regulation is particularly onerous. Levels of informality tend to be

higher in economies with especially burdensome regulation. 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 and, more generally, other legal protections embedded in the law.<sup>4</sup> 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 it provides policy makers with insights into potential areas of regulatory reform.

Many important policy areas are not covered by *Doing Business*; even within the areas it measures, the scope is narrow. *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 macroeconomic stability, development of the financial system, market size, the incidence of bribery and corruption, or the quality of the labor force.

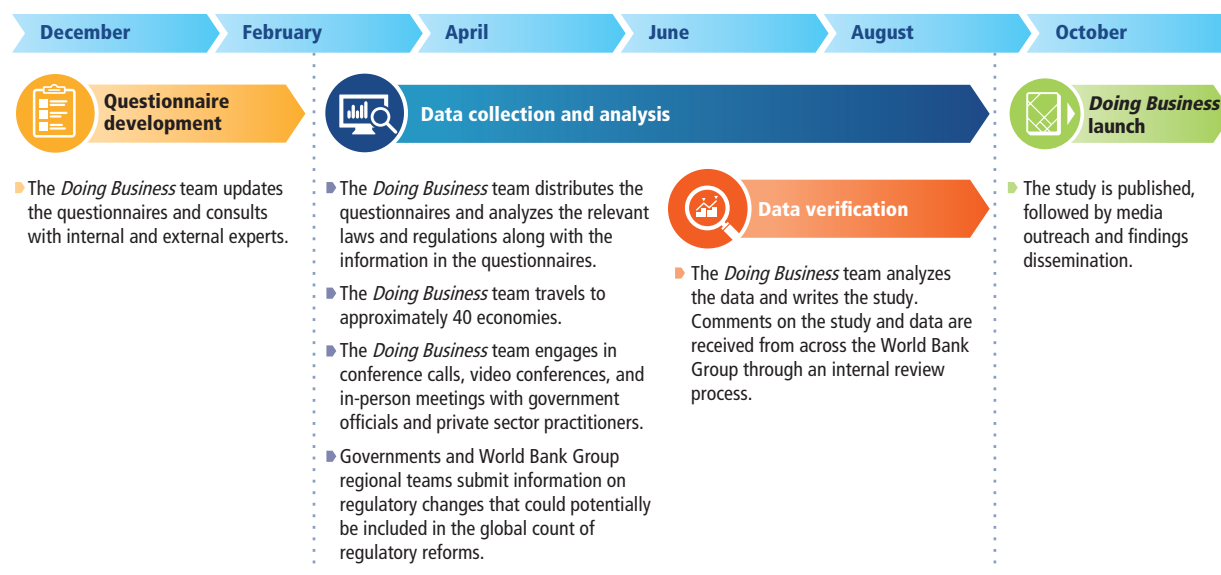
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## Data collection in practice

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 study covers 190 economies—including some of the smallest and poorest economies, for which other sources provide little or no data. 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. *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 1.2). For a detailed explanation of the *Doing Business* methodology, see the data notes at [www.doingbusiness.org](http://www.doingbusiness.org).

### Relevant laws and regulations

The *Doing Business* indicators are based mostly on laws and regulations: approximately two-thirds of the data embedded in the *Doing Business* indicators are based on a reading of the law. In addition to filling out questionnaires, *Doing Business* respondents submit references to the relevant laws, regulations, and fee schedules. The *Doing Business* team collects the texts of the relevant laws and regulations and checks the questionnaire responses for accuracy. The team examines the civil procedure code, for example, to check the maximum number of adjournments in a commercial court dispute, and reads the insolvency code to identify if the debtor can initiate liquidation or reorganization proceedings. Because the data collection process involves an annual update of an established database, having a very large sample of respondents is not strictly necessary. In principle,

**FIGURE 1.2** How *Doing Business* collects and verifies the data

the role of the contributors is largely advisory—helping the *Doing Business* team to locate and understand the laws and regulations. There are quickly diminishing returns to an expanded pool of contributors. This notwithstanding, the number of contributors rose by 80% between 2010 and 2019.

Extensive consultations with multiple contributors are conducted by the team to minimize measurement errors for the rest of the data. 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 approach 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**

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.<sup>5</sup> *Doing Business 2020* draws on the inputs of more than 15,000 professionals.<sup>6</sup> The *Doing Business* website shows the number of respondents for each economy and each indicator set.

Selected on the basis of their expertise in these areas, respondents are professionals who routinely administer or advise on the legal and regulatory requirements in the specific areas covered by *Doing Business*. 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. Accountants, architects, engineers, freight forwarders, and other professionals answer the questionnaires related to paying taxes, dealing with construction permits, trading across borders, and getting electricity. 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 is 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 property into separate steps to ensure a better estimate of time. The time estimate for each step is given by practitioners who have significant and routine experience in the transaction.

#### **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 sends the regulatory reform descriptions to the World Bank Group's Board of Executive Directors and World Bank Group Country Management Units in different regions, which then inform the respective governments about the reforms identified in their economies. Through this process, government authorities and World Bank Group staff working on the economies covered by *Doing Business* can alert the *Doing Business* team about, for example, regulatory reforms not reported by the respondents or additional achievements of regulatory reforms. 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 available at the *Doing Business* website. A transparent complaint procedure allows anyone to challenge the data. From November 2018 to October 2019, the team received and responded to 150 queries on the data.

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## **Uses of the *Doing Business* data**

*Doing Business* was designed with two main types of users in mind: policy makers and researchers. 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 case studies analyzed. These rules and case studies are chosen to be illustrative of the business regulatory environment, but they do not constitute a comprehensive description of that environment. By providing a unique dataset that enables analysis aimed at better understanding the role of business



regulation in economic development, *Doing Business* is also an important source of information for researchers.

### **Governments and policy makers**

*Doing Business* offers policy makers a benchmarking tool useful in stimulating policy debate, both by exposing potential challenges and by identifying good practices and lessons learned. Despite the narrow focus of the indicators, the initial debate in an economy on the results they highlight typically turns into a deeper discussion on areas where business regulatory reform is needed, including areas well beyond those measured by *Doing Business*. In economies where subnational studies are conducted, the *Doing Business* indicators go one step further in offering policy makers a tool to identify good practices that can be adopted within their economies.

The *Doing Business* indicators are “actionable.” For example, governments set the minimum capital requirement for new firms, invest in company and property registries to increase their efficiency, or improve the efficiency of tax administration by adopting the latest technology to facilitate the preparation, filing, and payment of taxes by the business community. Governments also undertake court reforms to shorten delays in the enforcement of contracts. Some *Doing Business* indicators, however, capture procedures, time, and costs that involve private sector participants, such as lawyers, notaries, architects, electricians, or freight forwarders. Governments have little influence in the short run over the fees these professions charge, though much can be achieved by strengthening professional licensing regimes and preventing anticompetitive behavior. In addition, governments have no control over the geographic location of their economy, a factor that can adversely affect businesses.

Over the past decade governments have increasingly turned to *Doing Business* as a repository of actionable, objective data providing unique insights into good practices worldwide as they have come to understand the importance of business regulation as a driving force of competitiveness. To ensure the coordination of efforts across agencies, economies such as Colombia, Kuwait, and Malaysia have formed regulatory reform committees. These committees use the *Doing Business* indicators as one input to inform their programs for improving the business environment. More than 70 other economies have also formed such committees. Governments have reported more than 3,800 regulatory reforms, 1,316 of which have been informed by *Doing Business* since 2003.<sup>7</sup>

Many economies share knowledge on the regulatory reform process related to the areas measured by *Doing Business*. Among the most common venues for this knowledge sharing are 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.

### **Researchers**

*Doing Business* data are widely used by researchers in academia, think tanks, international organizations, and other institutions. Since 2003, thousands of empirical articles have used *Doing Business* data or its conceptual

framework to analyze the impact of business regulation on various economic outcomes.<sup>8</sup> *Doing Business 2020* presents a literature review of recent research on the effects of business regulation in chapter 2. That chapter is an update to a similar exercise conducted in *Doing Business 2014* and focuses on research published in the top 100 academic journals in economics between 2013 and 2019.<sup>9</sup>

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## What is next?

*Doing Business 2021* will include the contracting with the government indicator set in the calculation of the ease of doing business ranking. The contracting with the government indicator set measures the procedures and time to win a public procurement contract according to a standardized case study focused on the infrastructure sector (see chapter 5 on contracting with the government). It also assesses the compliance of regulation with internationally recognized good practice. The data benchmark the efficiency of the public procurement life cycle in the 190 economies measured by *Doing Business*. As in the case of the other topics included in *Doing Business*, the data identify sources of delay and waste of resources.

Also, as part of a five-year cycle established in *Doing Business 2015*, *Doing Business 2021* will update the metrics of the best and worst regulatory performance used in the calculation of the scores for the various *Doing Business* indicator sets as well as the data on gross national income per capita and the export and import products used as a reference for each economy in the trading across borders indicator set. This update will allow the *Doing Business* data to more accurately reflect the best regulatory practices achieved by top-performing economies in the last five years—these practices will set the new standard for other economies to pursue. *Doing Business* is also considering expanding the coverage of the study to include the second-largest business city for economies with a population of more than 100 million (as of 2019), and the third- and fourth-largest business cities for economies with a population of more than 300 million.

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## Notes

1. Djankov 2016.
2. These papers are available on the *Doing Business* website at <http://www.doingbusiness.org/methodology>.
3. 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 indexes has the same value independent of the component it belongs to. Indicators for all other topics are assigned equal weights. For more details, see chapter 7 on the ease of doing business score and ease of doing business ranking.

4. La Porta and Shleifer 2008; Schneider 2005.
5. 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 edition, not as creating an entirely new dataset.
6. Although about 15,000 contributors provided data for *Doing Business 2020*, many of them completed a questionnaire for more than one *Doing Business* indicator set. Indeed, the total number of contributions received for *Doing Business 2020* is more than 18,400, which represents a true measure of the inputs received. The average number of contributions per indicator set and economy is more than seven. For more details, see <http://www.doingbusiness.org/contributors/doing-business>.
7. These are reforms for which *Doing Business* is aware that information provided by *Doing Business* was used in shaping the reform agenda.
8. Since the publication of the first *Doing Business* study in 2003, more than 3,700 research articles discussing how regulation in the areas measured by *Doing Business* influences economic outcomes have been published in peer-reviewed academic journals; over 1,300 of these are published in the top 100 journals. Another 10,000 are published as working papers, books, reports, dissertations, or research notes.
9. The journal and institution rankings are from Research Papers in Economics (RePEc) and cover the last 10 years. They can be accessed at <https://ideas.repec.org/top/top.journals.simple10.html> and <https://ideas.repec.org/top/top.inst.allbest10.html>.

