Executive summary

This 10th edition of the *Doing Business* report marks a good time to take stock—to look at how far the world has come in business regulatory practices and what challenges remain. In the first report one of the main findings was that low-income economies had very cumbersome regulatory systems. Ten years later it is apparent that business regulatory practices in these economies have been gradually but noticeably converging toward the more efficient practices common in higher-income economies (box 1.1). How much has the gap narrowed? Did some regions close the regulatory gap more rapidly than others? This year's report tells that story. It points to important trends in regulatory reform and identifies the regions and economies making the biggest improvements for local entrepreneurs. And it highlights both the areas of business regulation that have received the most attention and those where more progress remains to be made.

The report also reviews research on which regulatory reforms have worked and how. After 10 years of data tracking reforms and regulatory practices around the world, more evidence is available to address these questions. The report summarizes just some of the main findings. Among the highlights: Smarter business regulation supports economic growth. Simpler business registration promotes greater entrepreneurship and firm productivity, while lower-cost registration improves formal employment opportunities. An effective regulatory environment boosts trade performance. And sound

BOX 1.1 MAIN FINDINGS SINCE 2003 AND THE FIRST *DOING BUSINESS* REPORT

- Over these 10 years 180 economies implemented close to 2,000 business regulatory reforms as measured by *Doing Business*.
- Eastern Europe and Central Asia improved the most, overtaking East Asia and the Pacific as the world's second most business-friendly region according to *Doing Business* indicators. OECD high-income economies continue to have the most business-friendly environment.
- Business regulatory practices have been slowly converging as economies with initially poor performance narrow the gap with better performers. Among the 50 economies with the biggest improvements since 2005, the largest share—a third—are in Sub-Saharan Africa.
- Among the categories of business regulatory practices measured by *Doing Business*, there has been more convergence in those that relate to the complexity and cost of regulatory processes (business start-up, property registration, construction permitting, electricity connections, tax payment and trade procedures) than in those that relate to the strength of legal institutions (contract enforcement, insolvency regimes, credit information, legal rights of borrowers and lenders and the protection of minority shareholders).
- Two-thirds of the nearly 2,000 reforms recorded by *Doing Business* were focused on reducing the complexity and cost of regulatory processes.
- A growing body of research has traced out the effects of simpler business regulation on a range of economic outcomes, such as faster job growth and an accelerated pace of new business creation.

MAIN FINDINGS IN 2011/12

- **Worldwide, 108 economies implemented 201 regulatory reforms in 2011/12 making it easier to do business as measured by *Doing Business*.**
- **Poland improved the most in the ease of doing business, through 4 reforms—making it easier to register property, pay taxes, enforce contracts and resolve insolvency as measured by *Doing Business*.**
- **Eastern Europe and Central Asia once again had the largest share of economies implementing regulatory reforms—88% of its economies reformed in at least one of the areas measured by *Doing Business*.**
- **European economies in fiscal distress are working to improve the business climate, and this is beginning to be reflected in the indicators tracked by *Doing Business*. Greece is one of the 10 most improved globally in 2011/12.**
- **Reform efforts globally have focused on making it easier to start a new business, increasing the efficiency of tax administration and facilitating trade across international borders. Of the 201 regulatory reforms recorded in the past year, 44% focused on these 3 policy areas alone.**

financial market infrastructure—courts, creditor and insolvency laws, and credit and collateral registries—improves access to credit (see the chapter "About *Doing Business*").

WHAT ARE SMART RULES FOR BUSINESSES?

Just as good rules are needed to allow traffic to flow in a city, they are also essential to allow business transactions to flow. Good business regulations enable the private sector to thrive and businesses to expand their transactions network. But regulations put in place to safeguard economic activity and facilitate business operations, if poorly designed, can become obstacles to doing business. They can be like traffic lights put up to prevent gridlock—ineffective if a red light lasts for an hour. Most people would run the red light, just as most businesses facing burdensome regulations will try to circumvent them to stay afloat.

Striking the right balance in business regulation can be a challenge. It becomes an even greater challenge in a changing world, where regulations must continually adapt to new realities. Just as traffic systems have to adjust when a new road is being constructed, regulations need to adapt to new demands from the market and to changes in technology (such as the growing use of information and communication technology in business processes).

This challenge is one focus of this report. Through indicators benchmarking 185 economies, *Doing Business* measures and tracks changes in the regulations applying to domestic small and medium-size companies in 11 areas in their life cycle. This year's aggregate ranking on the ease of doing business is based on indicator sets that measure and benchmark regulations affecting 10 of those areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. *Doing Business* also documents regulations on employing workers, which are not included in this year's aggregate ranking or in the count of reforms.

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. In essence, *Doing Business* is about SMART business regulations—Streamlined, Meaningful, Adaptable, Relevant, Transparent—not necessarily fewer regulations (see figure 2.1 in the chapter "About *Doing Business*").

Doing Business encompasses 2 types of indicators: indicators relating to the *strength of legal institutions* relevant to business regulation and indicators relating to the *complexity and cost of regulatory processes*. Those in the first group focus on the legal and regulatory framework for getting credit, protecting investors, enforcing contracts and resolving insolvency. Those in the second focus on the cost and efficiency of regulatory processes for starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. Based on time-and-motion case studies from the perspective of the business, these indicators measure the procedures, time and cost required to complete a transaction in accordance with relevant regulations. (For a detailed explanation of the *Doing Business* methodology, see the data notes and the chapter "About *Doing Business*.")

Economies that rank high on the ease of doing business tend to combine efficient regulatory processes with strong legal institutions that protect property and investor rights (figure 1.1). OECD high-income economies have, by a large margin, the most business-friendly regulatory environment on both dimensions. Regions such as East Asia and the Pacific and the Middle East and North Africa have relatively efficient regulatory processes but still lag in the strength of legal institutions relevant to business regulation. Good practices around the world provide insights into how governments have improved the regulatory environment in the past in the areas measured by *Doing Business* (see table 1.4 at the end of the executive summary).

WHO NARROWED THE REGULATORY GAP IN 2011/12?

As reflected in the ranking on the ease of doing business, the 10 economies with the most business-friendly regulation are Singapore; Hong Kong SAR, China; New Zealand; the United States; Denmark; Norway; the United Kingdom; the Republic of Korea; Georgia; and Australia (table 1.1). Singapore tops the global ranking for the seventh consecutive year.

A number 1 ranking on the ease of doing business does not mean that an economy ranks number 1 across all 10 regulatory areas included in this aggregate measure. Indeed, Singapore's rankings range from 1 in trading across borders to 36 in registering property. Its top 3 rankings (on trading across borders, dealing with construction permits and protecting investors) average 2, while its lowest 3 (on registering property, getting credit and enforcing contracts) average 20. Similarly, Guatemala's top 3 (on getting credit, registering property and getting electricity) average 22, and its bottom 3 (on paying taxes, protecting investors and starting a business) average 151. So while the ease of doing business ranking is a useful aggregate measure, analysis based on this measure should also take into account the dispersion of regulatory efficiency across the areas measured by *Doing Business* (figure 1.2).

In the past year 58% of economies covered by *Doing Business* implemented at least 1 institutional or regulatory reform making it easier to do business in the areas measured, and 23 undertook reforms in 3 or more areas. Of these 23 economies, 10 stand out as having jumped

TABLE 1.1 Rankings on the ease of doing business

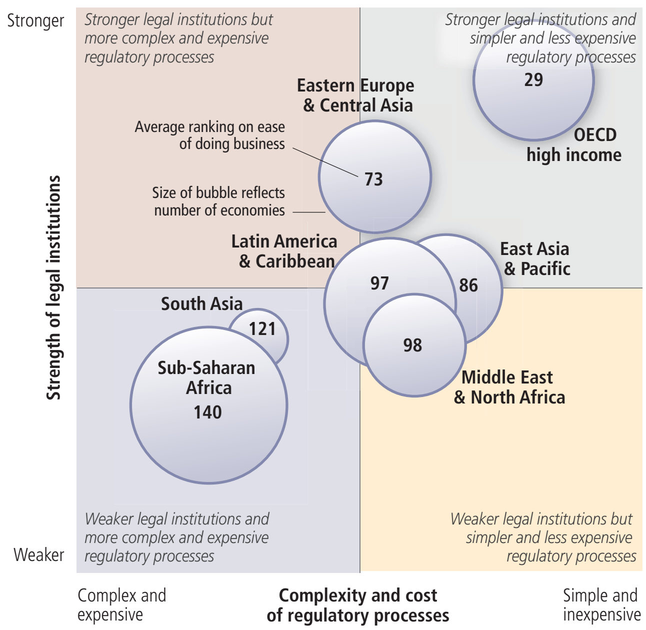
Rank	Economy	DB2013 reforms	Rank	Economy	DB2013 reforms	Rank	Economy	DB2013 reforms
1	Singapore	0	63	Antigua and Barbuda	0	125	Honduras	0
2	Hong Kong SAR, China	0	64	Ghana	0	126	Bosnia and Herzegovina	2
3	New Zealand	1	65	Czech Republic	3	127	Ethiopia	1
4	United States	0	66	Bulgaria	1	128	Indonesia	1
5	Denmark	1	67	Azerbaijan	0	129	Bangladesh	1
6	Norway	2	68	Dominica	1	130	Brazil	1
7	United Kingdom	1	69	Trinidad and Tobago	2	131	Nigeria	0
8	Korea, Rep.	4	70	Kyrgyz Republic	0	132	India	1
9	Georgia	6	71	Turkey	2	133	Cambodia	1
10	Australia	1	72	Romania	2	134	Tanzania	1
11	Finland	0	73	Italy	2	135	West Bank and Gaza	1
12	Malaysia	2	74	Seychelles	0	136	Lesotho	2
13	Sweden	0	75	St. Vincent and the Grenadines	0	137	Ukraine	3
14	Iceland	0	76	Mongolia	3	138	Philippines	0
15	Ireland	2	77	Bahamas, The	0	139	Ecuador	0
16	Taiwan, China	2	78	Greece	3	140	Sierra Leone	2
17	Canada	1	79	Brunei Darussalam	2	141	Tajikistan	1
18	Thailand	2	80	Vanuatu	0	142	Madagascar	1
19	Mauritius	2	81	Sri Lanka	4	143	Sudan	0
20	Germany	2	82	Kuwait	0	144	Syrian Arab Republic	1
21	Estonia	0	83	Moldova	2	145	Iran, Islamic Rep.	1
22	Saudi Arabia	2	84	Croatia	1	146	Mozambique	0
23	Macedonia, FYR	1	85	Albania	2	147	Gambia, The	0
24	Japan	1	86	Serbia	3	148	Bhutan	0
25	Latvia	0	87	Namibia	1	149	Liberia	3
26	United Arab Emirates	3	88	Barbados	0	150	Micronesia, Fed. Sts.	0
27	Lithuania	2	89	Uruguay	2	151	Mali	1
28	Switzerland	0	90	Jamaica	2	152	Algeria	1
29	Austria	0	91	China	2	153	Burkina Faso	0
30	Portugal	3	92	Solomon Islands	0	154	Uzbekistan	4
31	Netherlands	4	93	Guatemala	1	155	Bolivia	0
32	Armenia	2	94	Zambia	1	156	Togo	1
33	Belgium	0	95	Maldives	0	157	Malawi	1
34	France	0	96	St. Kitts and Nevis	0	158	Comoros	2
35	Slovenia	3	97	Morocco	1	159	Burundi	4
36	Cyprus	1	98	Kosovo	2	160	São Tomé and Príncipe	0
37	Chile	0	99	Vietnam	1	161	Cameroon	1
38	Israel	1	100	Grenada	1	162	Equatorial Guinea	0
39	South Africa	1	101	Marshall Islands	0	163	Lao PDR	3
40	Qatar	1	102	Malta	0	164	Suriname	0
41	Puerto Rico (U.S.)	1	103	Paraguay	0	165	Iraq	0
42	Bahrain	0	104	Papua New Guinea	0	166	Senegal	0
43	Peru	2	105	Belize	1	167	Mauritania	0
44	Spain	2	106	Jordan	0	168	Afghanistan	0
45	Colombia	1	107	Pakistan	0	169	Timor-Leste	0
46	Slovak Republic	4	108	Nepal	0	170	Gabon	0
47	Oman	1	109	Egypt, Arab Rep.	0	171	Djibouti	0
48	Mexico	2	110	Costa Rica	4	172	Angola	1
49	Kazakhstan	3	111	Palau	0	173	Zimbabwe	0
50	Tunisia	0	112	Russian Federation	2	174	Haiti	0
51	Montenegro	2	113	El Salvador	1	175	Benin	4
52	Rwanda	2	114	Guyana	0	176	Niger	1
53	St. Lucia	0	115	Lebanon	0	177	Côte d'Ivoire	0
54	Hungary	3	116	Dominican Republic	0	178	Guinea	3
55	Poland	4	117	Kiribati	0	179	Guinea-Bissau	0
56	Luxembourg	0	118	Yemen, Rep.	0	180	Venezuela, RB	0
57	Samoa	0	119	Nicaragua	0	181	Congo, Dem. Rep.	1
58	Belarus	2	120	Uganda	1	182	Eritrea	0
59	Botswana	1	121	Kenya	1	183	Congo, Rep.	2
60	Fiji	1	122	Cape Verde	0	184	Chad	1
61	Panama	3	123	Swaziland	1	185	Central African Republic	0
62	Tonga	0	124	Argentina	0			

Note: The rankings for all economies are benchmarked to June 2012 and reported in the country tables. This year's rankings on the ease of doing business are the average of the economy's percentile rankings on the 10 topics included in this year's aggregate ranking. The number of reforms excludes those making it more difficult to do business.

Source: Doing Business database.

FIGURE 1.1 OECD high-income economies combine efficient regulatory processes with strong legal institutions

Average ranking on sets of *Doing Business* indicators



Note: Strength of legal institutions refers to the average ranking on getting credit, protecting investors, enforcing contracts and resolving insolvency. *Complexity and cost of regulatory processes* refers to the average ranking on starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders.

Source: Doing Business database.

ahead the most in the relative ranking (table 1.2). Others in this group advanced less in the global ranking because they already ranked high. Two are Korea and the Netherlands. Already among the top 35 in last year's global ranking, both implemented regulatory reforms making it easier to do business in 4 areas measured by *Doing Business*.

Four of the 10 economies improving the most in the ease of doing business are in Eastern Europe and Central Asia—the region that also had the largest number of regulatory reforms per economy in the past year. Four of the 10 are lower-middle-income economies; of the rest, 1 is low income, 3 are upper middle income and 2 are high income. And for the first time in 7 years, a South Asian economy—Sri Lanka—ranks among those improving the most in the ease of doing business.

Eight of the 10 economies made it easier to start a business. Kazakhstan, Mongolia and Ukraine reduced or eliminated the minimum capital requirement

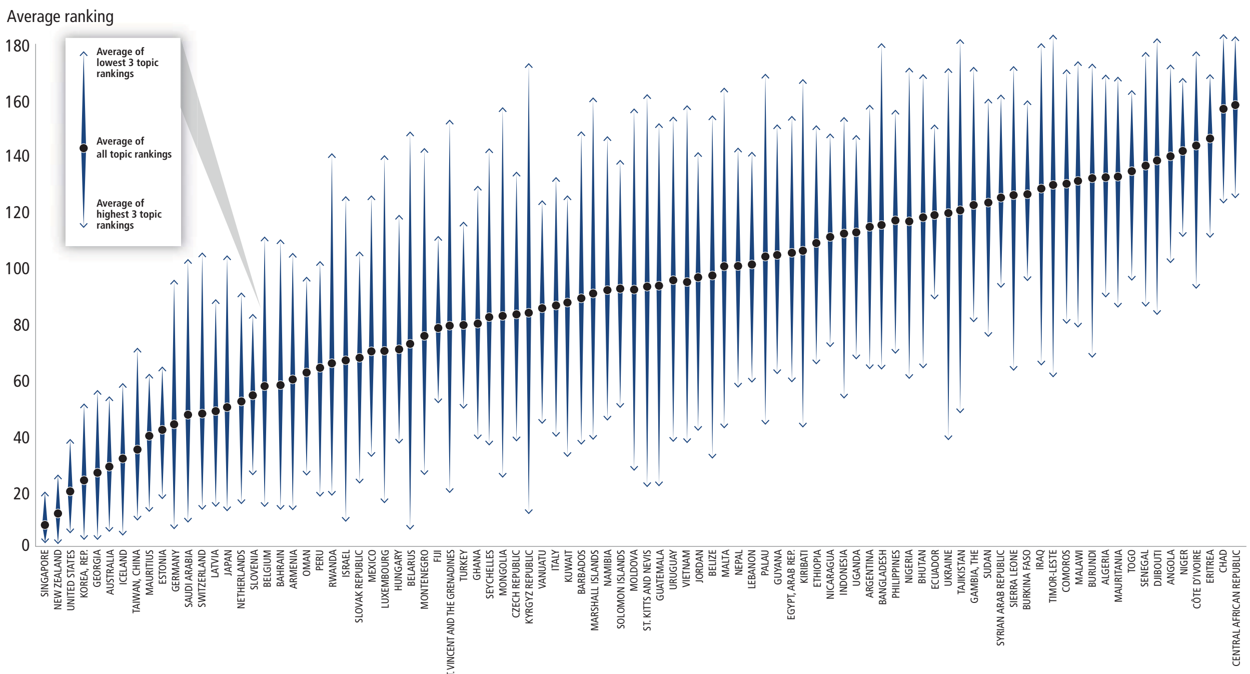
TABLE 1.2 The 10 economies improving the most across 3 or more areas measured by *Doing Business* in 2011/12

			Reforms making it easier to do business									
	Economy	Ease of doing business rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
1	Poland	55				✔			✔		✔	✔
2	Sri Lanka	81	✔			✔	✔			✔		
2	Ukraine	137	✔			✔			✔			
4	Uzbekistan	154	✔				✔			✔		✔
5	Burundi	159	✔	✔		✔				✔		
6	Costa Rica	110	✔	✔			✔		✔			
6	Mongolia	76	✔				✔	✔				
8	Greece	78		✔				✔				✔
9	Serbia	86	✔								✔	✔
10	Kazakhstan	49	✔				✔					✔

Note: Economies are ranked on the number of their reforms and on how much they improved in the ease of doing business ranking. First, *Doing Business* selects the economies that implemented reforms making it easier to do business in 3 or more of the 10 topics included in this year's aggregate ranking. Regulatory reforms making it more difficult to do business are subtracted from the number of those making it easier to do business. Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year. The increase in economy rankings is not calculated using the published ranking of last year but by using a comparable ranking for DB2012 that captures the effects of other factors, such as the inclusion this year of 2 new economies in the sample, Barbados and Malta. The choice of the most improved economies is determined by the largest improvement in rankings, among those economies with at least 3 reforms.

Source: Doing Business database.

FIGURE 1.2 An economy's regulatory environment may be more business-friendly in some areas than in others



Note: Rankings reflected are those on the 10 *Doing Business* topics included in this year's aggregate ranking on the ease of doing business. Figure is for illustrative purposes only; it does not include all 185 economies covered by this year's report. See the country tables for rankings on the ease of doing business and each *Doing Business* topic for all economies.
Source: Doing Business database.

for company incorporation. Sri Lanka computerized and expedited the process for registering employees. Burundi eliminated 3 requirements: to have company documents notarized, to publish information on new companies in a journal and to register new companies with the Ministry of Trade and Industry.

Five of the 10 made it easier to resolve insolvency, and 2 of these also strengthened their systems for enforcing contracts. Serbia strengthened its insolvency process by introducing private bailiffs, prohibiting appeals of the court's decision on the proposal for enforcement, expediting service of process and adopting a public electronic registry for injunctions. The new private bailiff system also increased efficiency in enforcing contracts. Poland introduced a new civil procedure code that, along with an increase in the number of judges, reduced the time required to enforce a commercial contract. Poland also made it easier to resolve insolvency, by updating the documentation requirements for bankruptcy filings.

Four economies made it easier to register property. Poland increased efficiency in processing property registration applications through a series of initiatives in recent years. These included creating 2 new registration districts in Warsaw and, in the past year, introducing a new caseload management system for the land and mortgage registries and continuing to digitize their records.

Five economies improved in the area of getting credit. Costa Rica, Mongolia and Uzbekistan guaranteed borrowers' right to inspect their personal credit data. Sri Lanka established a searchable electronic collateral registry and issued regulations for its operation. Kazakhstan strengthened the rights of secured creditors in insolvency proceedings.

Greece, driven in part by its economic crisis, implemented regulatory reforms in 3 areas measured by *Doing Business*—improving its regulatory environment at a greater pace in the past year than in any of the previous 6. It made construction permitting faster by transferring the planning approval process from the municipality to certified private professionals, strengthened investor protections by requiring greater disclosure and introduced a new prebankruptcy rehabilitation procedure aimed at enhancing the rescue of distressed companies.

Costa Rica, the only economy in Latin America and the Caribbean in the group of 10, implemented regulatory changes in 4 areas measured by *Doing Business*. It introduced a risk-based approach for granting sanitary approvals for business start-ups and established online approval systems for the construction permitting process. Costa Rica also guaranteed borrowers' right to inspect their personal data and made paying taxes easier for local companies by implementing electronic payments for municipal taxes.

While these 10 economies improved the most in the ease of doing business, they were far from alone in introducing improvements in the areas measured by *Doing Business* in 2011/12. A total of 108 economies did so, through 201 institutional and regulatory reforms. And in the years since the first report was published in 2003, 180 of the 185 economies covered by *Doing Business* made improvements in at least one of these areas—through nearly 2,000 such reforms in total.

In 2011/12 starting a business was again the area with the most regulatory reforms. In the past 8 years the start-up process received more attention from policy makers than any other area of business regulation tracked by *Doing Business*—through 368 reforms in 149 economies. These worldwide efforts reduced the average time to start a business from 50 days to 30 and the average cost from 89% of income per capita to 31%.

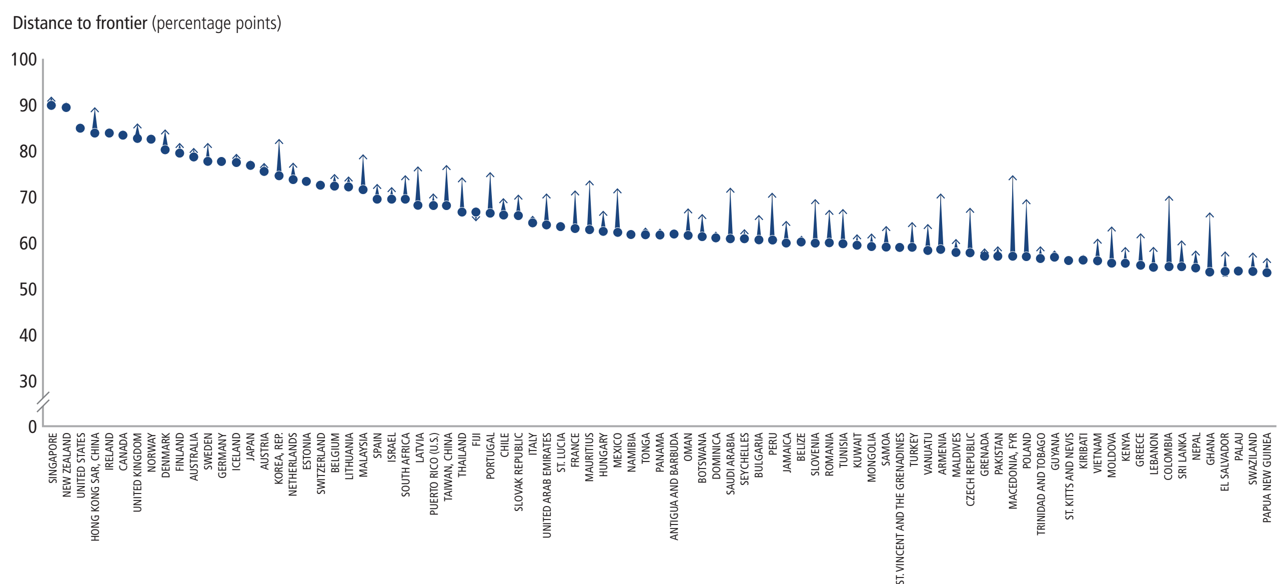
In the past year Eastern Europe and Central Asia once again had the largest share of economies registering improvements, with 88% of economies implementing at least 1 institutional or regulatory reform making it easier to do business and 67% implementing at least 2 (figure 1.3). This region has been consistently active through all the years covered by *Doing Business*, implementing 397 institutional and regulatory reforms since 2005. At least some of this regulatory reform push reflects efforts by economies joining the European Union in 2004 to continue to narrow the gap in regulatory efficiency with established EU members—as well as similar efforts among economies now engaged in EU accession negotiations.

WHO HAS NARROWED THE GAP OVER THE LONG RUN?

To complement the ease of doing business ranking, a relative measure, last year's *Doing Business* report introduced the distance to frontier, an absolute measure of business regulatory efficiency. This measure aids in assessing how much the regulatory environment for local entrepreneurs improves in absolute terms over time by showing the distance of each economy to the "frontier," which represents the best performance observed on each of the *Doing Business* indicators across all economies and years included since 2005. The measure is normalized to range between 0 and 100, with 100 representing the frontier. A higher score therefore indicates a more efficient business regulatory system (for a detailed description of the methodology, see the chapter on the ease of doing business and distance to frontier).

Analysis based on the distance to frontier measure shows that the burden of regulation has declined since 2005 in the areas measured by *Doing Business*. On average the 174 economies covered by *Doing Business* since that year are today closer to the frontier in regulatory practice (figure 1.4). In 2005 these economies were 46 percentage points from the frontier on average, with the closest economy 10 percentage points away and the furthest one 74 percentage points away. Now these 174 economies are 40 percentage points from the frontier on average, with

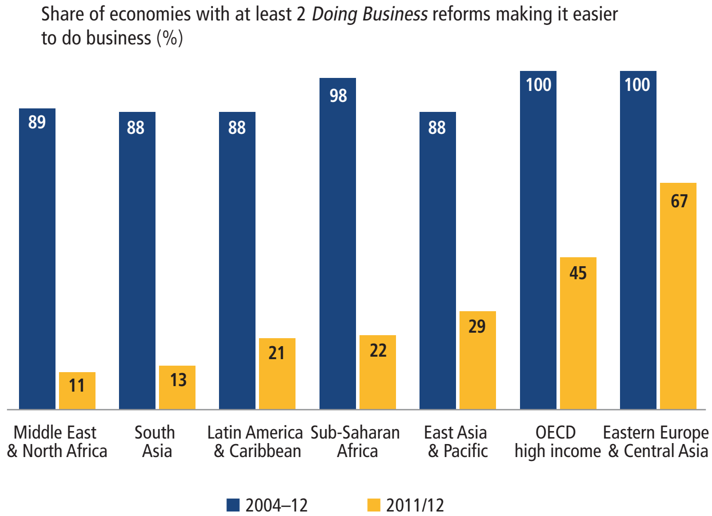
FIGURE 1.4 Almost all economies are closer to the frontier in regulatory practice today than they were in 2005



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

Source: Doing Business database.

FIGURE 1.3 Eastern Europe and Central Asia had the largest share of economies reforming business regulation in 2011/12



Source: Doing Business database.

the closest economy 8 percentage points away and the furthest economy 69 percentage points away.

OECD high-income economies are closest to the frontier on average. But other regions are narrowing the gap. Eastern Europe and Central Asia has done so the most, thanks to about 17 institutional and regulatory reforms per economy since 2005 (figure 1.5). Economies in the Middle East and North Africa and Sub-Saharan Africa have implemented more than 9 institutional and regulatory reforms on average—and those in East Asia and the Pacific, Latin America and the Caribbean and South Asia about 8. With its faster pace of improvement, Eastern Europe and Central Asia overtook East Asia and the Pacific as the second most business-friendly region according to *Doing Business* indicators.

But the variation within regions is large. In Latin America and the Caribbean, for example, Colombia implemented 25 institutional and regulatory reforms in the past 8 years, while Suriname had none. In East Asia and the Pacific, Vietnam implemented 18 reforms, and Kiribati none. In a few economies (such as República Bolivariana de Venezuela and Zimbabwe) the business environment deteriorated as measures added to the complexity and cost of regulatory processes or undermined property rights and investor protections. Within the European Union, 4 Southern European economies have recently accelerated regulatory reform efforts (box 1.2).

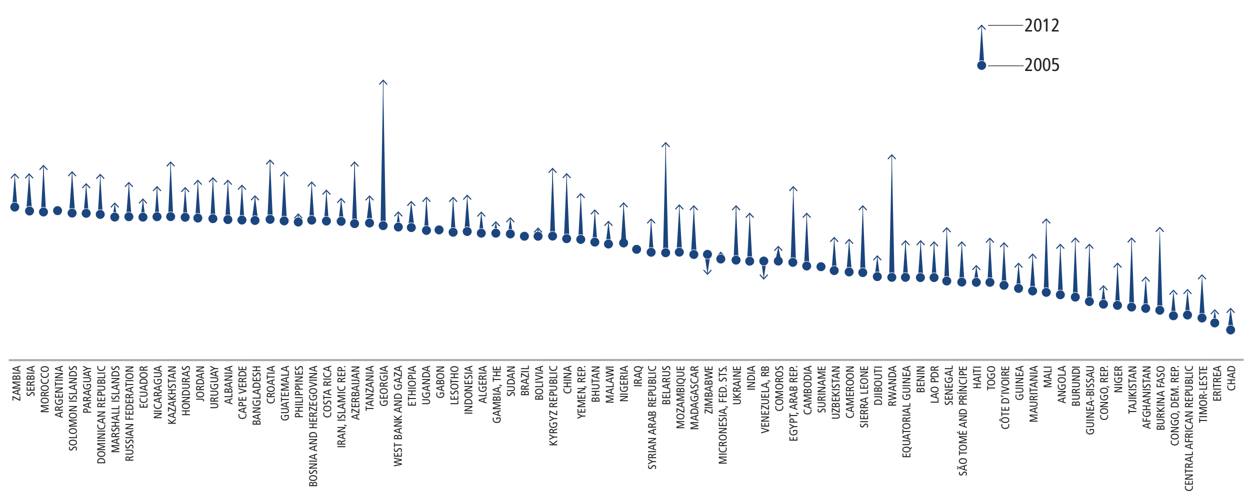
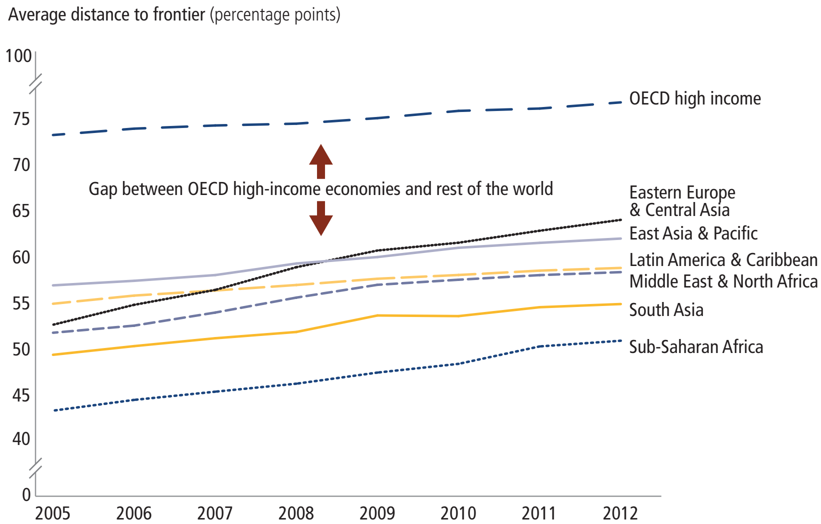


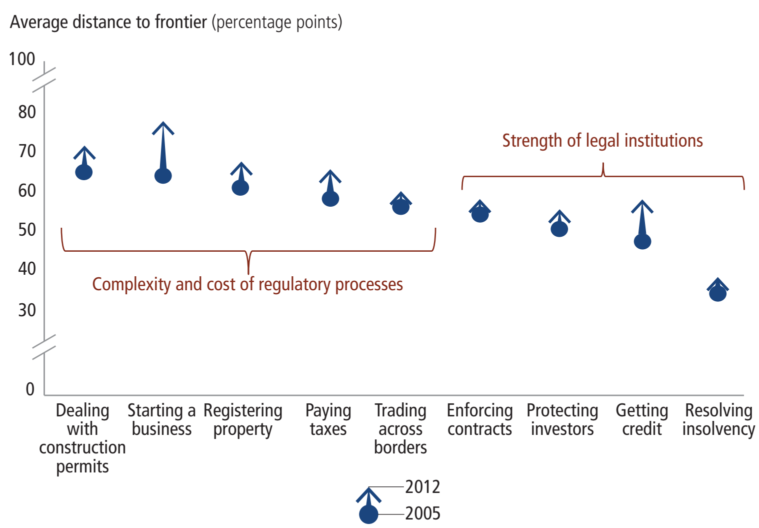
FIGURE 1.5 Doing business is easier today than in 2005, particularly in Eastern Europe and Central Asia and Sub-Saharan Africa



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005) and to the regional classifications that apply in 2012. Eleven economies were added in subsequent years.

Source: Doing Business database.

FIGURE 1.6 Globally, reform efforts have focused more on reducing the complexity and cost of regulatory processes than on strengthening legal institutions



Note: Figure illustrates the extent to which average regulatory practice across economies has moved closer to the most efficient practice in each area measured by *Doing Business*. The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

Source: Doing Business database.

Improvements happened across all regulatory areas measured by *Doing Business* between 2005 and 2012. But governments were more likely to focus their reform efforts on reducing the complexity and cost of regulatory processes—the focus of 1,227 reforms recorded by *Doing Business* since 2005—than on strengthening legal institutions—the focus of close to 600 (figure 1.6).

Improving business regulation is a challenging task, and doing it consistently over time even more so. Yet some economies have achieved considerable success since 2005 in doing just that (table 1.3). A few of these economies stand out within their region: Georgia, Rwanda, Colombia, China and Poland.

Georgia is the top improver since 2005 both in Eastern Europe and Central Asia and globally. With 35 institutional and regulatory reforms since 2005, Georgia has improved in all areas measured by *Doing Business*. In the past year alone it improved in 6 areas. As just one example, Georgia made trading across borders easier by introducing customs clearance zones in such cities as Tbilisi and Poti. These one-stop shops for trade clearance processes are open all day every day, allowing traders to submit customs documents and complete other formalities in a single place. Georgia also strengthened its secured transactions system. A new amendment to its civil code allows a security interest to extend to the products, proceeds and replacements of an asset used as collateral.

Georgia has also distinguished itself by following a relatively balanced regulatory reform path. Many economies aiming to improve their regulatory environment start by reducing the complexity and cost of regulatory processes (in such areas as starting a business). Later they may move on to reforms strengthening legal institutions relevant to business regulation (in such areas as getting credit). These tend to be a bigger challenge, sometimes requiring amendments to key pieces of legislation rather than simply changes in

BOX 1.2 FISCAL IMBALANCES AND REGULATORY REFORM IN SOUTHERN EUROPE

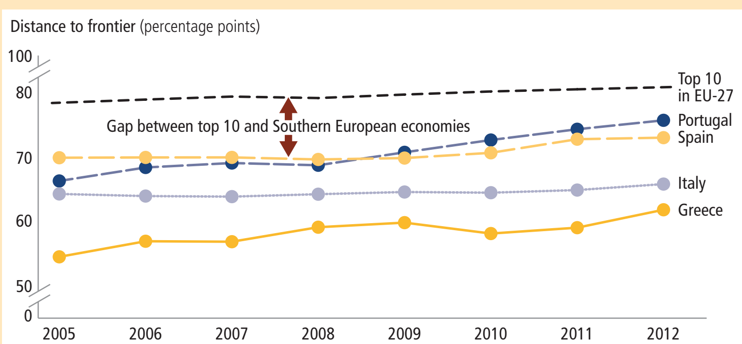
The 2008–09 global financial crisis contributed to rapid increases in public debt levels among high-income economies. The recession depressed tax revenues and forced governments to increase spending to ease the effects of the crisis. Governments used public sector stimulus to cushion the impact of the sharp contraction in output, and many were also forced to intervene to strengthen the balance sheets of commercial banks and prop up industries struck particularly hard by the crisis. The fiscal deterioration in the context of weak global demand contributed to greater risk aversion among investors, complicating fiscal management in many economies, particularly those with already high debt levels or rapidly growing deficits.

Greece, Italy, Portugal and Spain were among those most affected by the crisis and associated market pressures. Aware that the resumption of economic growth would be key to returning to a sustainable fiscal position, authorities in these economies moved to implement broad-ranging reforms.

Business regulation reforms were an integral part of these plans, as reflected in the *Doing Business* data. While Greece is among the 10 economies with the biggest improvements in the ease of doing business in the past year, the other 3 economies also made important strides. Italy made it easier to get an electricity connection and to register property. Portugal simplified the process for construction permitting, for importing and exporting and for resolving insolvency. Spain made trading across borders simpler and amended its bankruptcy law. All 4 economies reformed or are also in the process of reforming their labor laws with the aim of making their labor market more flexible.

Doing Business reforms are not new to these economies. Since 2004, Portugal has implemented 25, Spain and Greece 17, and Italy 14 institutional or regulatory reforms. The impact of these reforms has helped these 4 economies narrow the business regulatory gap with the best performers in the European Union (see figure).

In Southern Europe, an acceleration in the pace of regulatory reform



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The top 10 in EU-27 are the 10 economies closest to the frontier among current members of the European Union.

Source: Doing Business database.

administrative procedures. Georgia has followed this pattern, focusing initially on reducing the complexity and cost of regulatory processes and later on strengthening legal institutions. But among a group of 5 top regional improvers, Georgia has improved the most along both dimensions (figure 1.7).

Rwanda, the number 2 improver globally and top improver in Sub-Saharan Africa since 2005, has reduced the gap with the frontier by almost half. To highlight key lessons emerging from Rwanda's sustained efforts, this year's report features a case study of its reform process. But Rwanda is far from alone in the region: of the 50 economies advancing the most

TABLE 1.3 The 50 economies narrowing the distance to frontier the most since 2005

Rank	Economy	Region	Improvement (percentage points)
1	Georgia	ECA	31.6
2	Rwanda	SSA	26.5
3	Belarus	ECA	23.5
4	Burkina Faso	SSA	18.5
5	Macedonia, FYR	ECA	17.4
6	Egypt, Arab Rep.	MENA	16.3
7	Mali	SSA	15.8
8	Colombia	LAC	15.3
9	Tajikistan	ECA	15.2
10	Kyrgyz Republic	ECA	14.8
11	Sierra Leone	SSA	14.7
12	China	EAP	14.3
13	Azerbaijan	ECA	12.9
14	Croatia	ECA	12.8
15	Ghana	SSA	12.7
16	Burundi	SSA	12.6
17	Poland	OECD	12.3
18	Guinea-Bissau	SSA	12.2
19	Armenia	ECA	12.2
20	Ukraine	ECA	12.0
21	Kazakhstan	ECA	11.9
22	Senegal	SSA	11.5
23	Cambodia	EAP	11.1
24	Angola	SSA	11.0
25	Mauritius	SSA	10.9
26	Saudi Arabia	MENA	10.7
27	India	SAS	10.6
28	Guatemala	LAC	10.4
29	Madagascar	SSA	10.3
30	Morocco	MENA	10.1
31	Yemen, Rep.	MENA	10.1
32	Peru	LAC	10.1
33	Mozambique	SSA	10.0
34	Czech Republic	OECD	9.8
35	Timor-Leste	EAP	9.7
36	Côte d'Ivoire	SSA	9.5
37	Togo	SSA	9.5
38	Slovenia	OECD	9.5
39	Mexico	LAC	9.4
40	Niger	SSA	9.4
41	Nigeria	SSA	9.0
42	Portugal	OECD	9.0
43	Solomon Islands	EAP	8.9
44	Uruguay	LAC	8.8
45	Dominican Republic	LAC	8.8
46	Taiwan, China	EAP	8.8
47	São Tomé and Príncipe	SSA	8.7
48	France	OECD	8.6
49	Bosnia and Herzegovina	ECA	8.4
50	Albania	ECA	8.3

Note: Rankings are based on the absolute difference for each economy between its distance to frontier in 2005 and that in 2012. The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years. The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). EAP = East Asia and the Pacific; ECA = Eastern Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; OECD = OECD high income; SAS = South Asia; SSA = Sub-Saharan Africa.

Source: Doing Business database.

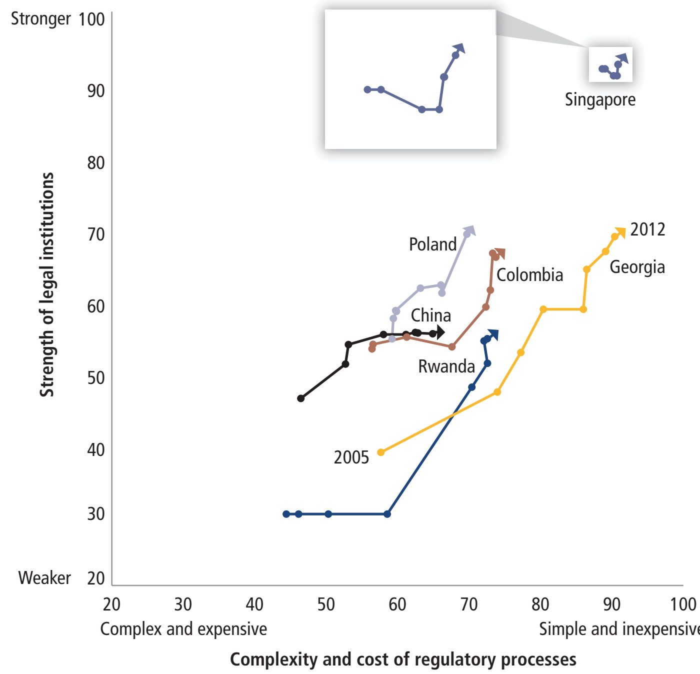
toward the frontier since 2005, 17 are in Sub-Saharan Africa.

Worldwide, economies at all income levels are narrowing the gap with the frontier on average—but low-income economies more so than high-income ones. This is an important achievement. Indeed, while business regulatory practices in all lower-income groups are converging toward those in high-income economies on average, low-income economies have reduced the gap the most, by 4 percentage points since 2005. Lower-middle-income economies have closed the gap with high-income economies by 3 percentage points, and upper-middle-income economies by 2 percentage points. This convergence is far from complete, however.

While the Arab Republic of Egypt is the top improver in the Middle East and North Africa since 2005, its improvement was concentrated in the years before 2009. In the past 4 years there was no visible improvement in the areas measured by *Doing Business*. Regionally, there was less focus on reforming business regulation in the past year than in any previous year covered by *Doing Business*, with only 11% of economies implementing at least 2 regulatory reforms (box 1.3).

FIGURE 1.7 Different economies have followed a variety of regulatory reform paths

Average distance to frontier in sets of *Doing Business* indicators (percentage points)



Note: Strength of legal institutions refers to the average distance to frontier in getting credit, protecting investors, enforcing contracts and resolving insolvency. *Complexity and cost of regulatory processes* refers to the average distance to frontier in starting a business, dealing with construction permits, registering property, paying taxes and trading across borders. Each dot refers to a different year, starting in 2005 and ending in 2012. The reform progress of Singapore, the economy with the most business-friendly regulation for the seventh year in a row, is shown for purposes of comparison. For visual clarity the series for Singapore starts in 2007. The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier).

Source: Doing Business database.

Colombia, the economy narrowing the gap with the frontier the most in Latin America and the Caribbean, is also featured in a case study this year. Between 2006 and 2009 Colombia focused mostly on improving the efficiency of regulatory processes, with an emphasis on business registration and tax administration. But in 2010 it began reforming legal institutions, such as by strengthening the protection of minority shareholders and by improving the insolvency regime.

Two of the "BRICs" rank among the top 50 improvers—China and India, each also the top improver in its region since 2005. Both implemented regulatory reforms particularly in the early years covered by *Doing Business*. China established a new company law in 2005, a new credit registry in 2006, its first bankruptcy law in 2007, a new property law in 2007, a new civil procedure law in 2008 and a new corporate income tax law in 2008. After establishing its first credit bureau in 2004, India focused mostly on simplifying and reducing the cost of regulatory processes in such areas as starting a business, paying taxes and trading across borders.

Five OECD high-income economies make the list of top 50 improvers: Poland, the Czech Republic, Slovenia, Portugal and France. Poland in the past year alone implemented 4 institutional and regulatory reforms, among the 20 recorded for it by *Doing Business* since 2005. It improved the process for transferring property, made paying taxes more convenient by promoting the use of electronic facilities, reduced the time to enforce contracts and strengthened the process of resolving insolvency.

IN WHAT AREAS IS THE GAP NARROWING THE MOST?

Since 2005 there has been a convergence in business regulatory practices in two-thirds of the areas measured by *Doing Business*: starting a business, paying taxes, dealing with construction permits, registering property, getting credit and enforcing contracts. This means that laws, regulations and procedures in these areas are more similar across economies today than they were 8 years ago. Overall, more convergence has occurred in the areas measured by *Doing Business* that relate to the complexity and cost of regulatory processes than in those that relate to the strength of legal institutions.[1]

The greatest convergence in regulatory practice has occurred in business start-up. Among the 174 economies covered by *Doing Business* since 2005, the time to start a business in that year averaged 112 days in the worst quartile of the economies as ranked by performance on this indicator, while it averaged 29 days for the rest (figure 1.8). Since then, thanks to 368 reforms in 149 economies, the average time for the worst quartile has fallen to 63 days, getting closer to the average of 18 for the rest. Similar but less strong patterns are observed for indicators of time, procedures and cost for paying taxes, dealing with construction permits and registering property.

But in 3 areas the trend runs weakly in the other direction. In protecting investors, trading across borders and resolving insolvency the realities in different economies have slowly drifted apart rather than converged. This does not mean that in these 3 areas the average regulatory environment is worse today than in 2005; it is actually better (see figure 1.6). But it does mean that economies that were in the best 3 quartiles of the distribution in these 3 areas in 2005 have strengthened practices and institutions somewhat faster than those in the worst quartile.

WHAT IS THE IMPACT ON ECONOMIC OUTCOMES?

Beyond what *Doing Business* measures, have the business regulation reforms undertaken by governments since 2005 had an impact? In presenting analysis of this question, earlier editions of *Doing Business* focused on cross-country analyses linking business regulation to economic variables such as corruption or rates of informality in the economy.

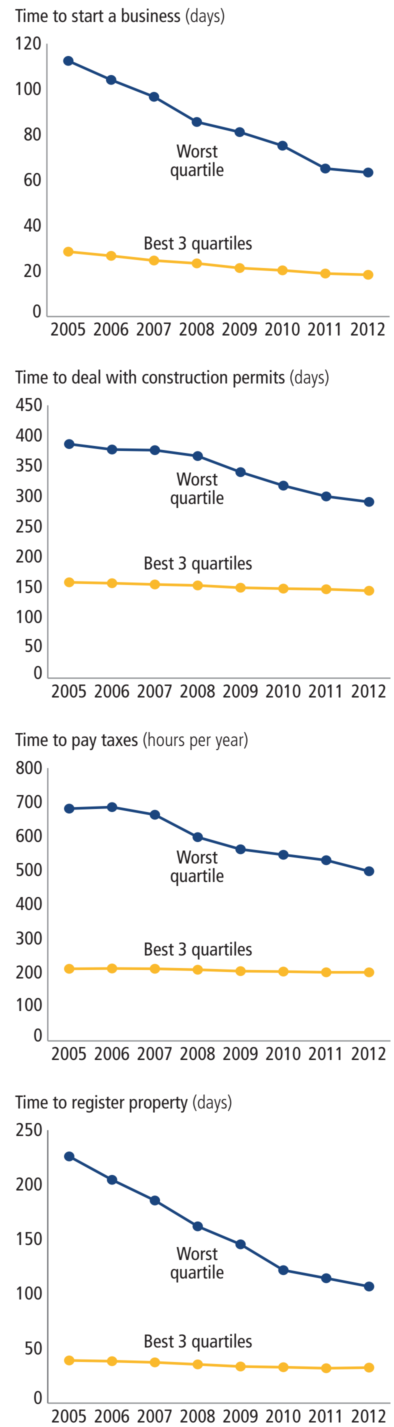
With more years of data now available, previous research on the impact of reforms in the areas measured by *Doing Business* can be extended over time and linked to more economic outcomes. Using several years of data for the same economy makes it possible to take into account country characteristics that remain constant over time when doing analysis across economies—something not possible in the earlier cross-country analyses. Based on a 5-year panel of economies, one such study finds that in low-income economies that implemented reforms making it easier to do business, the growth rate increased by 0.4 percentage point in the following year.[2] Emerging evidence from analysis based on 8 years of *Doing Business* data and building on the earlier studies shows that improvements in business entry and other aspects of business regulation matter for aggregate growth as well. Credibly pinning down the magnitude of this effect is more difficult, however.[3]

Research on the effect of regulatory reforms is advancing especially rapidly around the question of business start-up. A growing body of research has shown that simpler entry regulations encourage the creation of more new firms and new jobs in the formal sector. Economies at varying income levels and in different regions saw noticeable increases in the number of new firm registrations after implementing such reforms (figure 1.9). Within-country studies have confirmed the positive association between improvements in business registration and registration of new firms in such countries as Colombia, India, Mexico and Portugal. These studies have found increases of 5–17% in the number of newly registered businesses after reforms of the business registration process (for more discussion, see the chapter “About *Doing Business*”).

Better business regulation as measured by *Doing Business* is also associated with greater new business registration. Ongoing research by *Doing Business* using 8 years of data shows that reducing the distance to frontier by 10 percentage points is associated with an increase of 1 newly registered business for every 1,000 working-age people, a meaningful result given the world average of 3.2 newly registered businesses for every 1,000 working-age people per year.[4]

FIGURE 1.8 Strong convergence across economies since 2005

Averages by quartile



Note: Economies are ranked in quartiles by performance in 2005 on the indicator shown. The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

Source: Doing Business database.

BOX 1.3 BUSINESS REGULATION IN THE MIDDLE EAST AND NORTH AFRICA—THE CHALLENGES AHEAD

Earlier editions of the *Doing Business* report highlighted substantial efforts by governments in the Middle East and North Africa to improve business regulation for local entrepreneurs. But the reform momentum has slowed since the beginning of the Arab Spring in January 2011, as some countries have entered a complex process of transition to more democratic forms of governance. The post–Arab Spring governments have had a broad range of economic, social and political issues to address, and this in turn has resulted in a slower overall reform process, as new governments have struggled to adjust to important shifts in the political and economic landscape.

The region faces structural challenges that can impede private sector activity. A history of government intervention has created more opportunities for rent seeking than for entrepreneurship. Firm surveys show that manufacturing firms as well as their managers are older on average than those in other regions, indicating weaker entry and exit mechanisms. Firm entry density in the Middle East and North Africa is among the lowest in the world.[1]

Moreover, the region suffers from a crisis of governance and trust: businesses do not trust officials, and officials do not trust businesses. Business managers in the region rank corruption, anticompetitive practices and regulatory policy uncertainty high on their list of concerns. At the same time 60% of public officials interviewed across the region perceive the private sector as rent seeking and corrupt. And banks cite lack of corporate transparency as among the main obstacles to extending more finance to small and medium-size enterprises.[2]

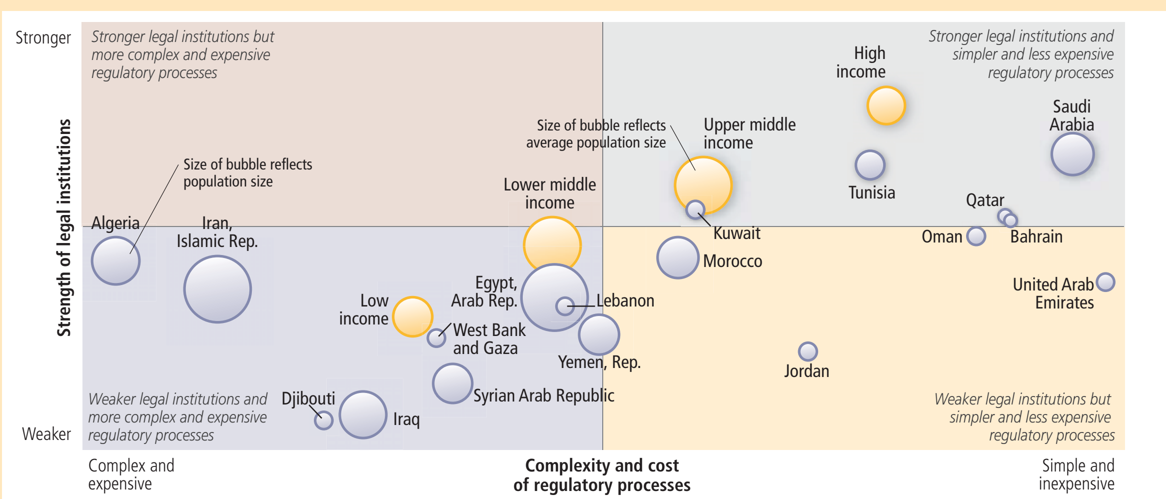
Some governments in the region have tried to aggressively reform the business environment in the past, but have seen the impact of their efforts lessened by a lack of sustained commitment to in-depth changes and the related risk of upsetting the established order. A common view is that only connected entrepreneurs are successful, suggesting a dual set of rules with preferential treatment for those close to the ruling elites. This suggests a need for governments to invest in governance structures and increase transparency in parallel with efforts to improve the business regulatory environment. The case study on transparency in this year's report points to one area where they could start: the Middle East and North Africa is one of the regions with the most constrained access to basic regulatory information such as fee schedules.

Although economies in the region have made some strides in reducing the complexity and cost of regulatory processes, entrepreneurs across the region still contend with weak investor and property rights protections (see figure). With an average ease of doing business ranking of 98, the region still has much room for making the life of local businesses easier through clearer and more transparent rules applied more consistently. Such rules would facilitate rather than impede private sector activity in economies where the state has traditionally had an outsized presence in the national economy and in a region where the need to encourage entrepreneurship is thus perhaps more intense than in any other.

All these challenges notwithstanding, the recent political changes in the region—fast, hectic, unpredictable, far-reaching in their effects—provide a unique opportunity for governments to substantively address many of the impediments to private sector development that have plagued the region in recent decades. Moving to a system of more transparent and sensible rules—rules that are better able to respond to the needs of the business community and that provide incentives to narrow the gap between the law as written and the law as practiced—will go a long way toward creating the conditions for more equitable economic growth and a faster pace of job creation.

Entrepreneurs across the Middle East and North Africa face relatively weak investor and property rights protections

Average ranking on sets of *Doing Business* indicators by economy and global income group



Note: Strength of legal institutions refers to the average ranking on getting credit, protecting investors, enforcing contracts and resolving insolvency. *Complexity and cost of regulatory processes* refers to the average ranking on starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. The global income groups exclude economies in the Middle East and North Africa.

Source: Doing Business database.

1. World Bank, *From Privilege to Competition: Unlocking Private-Led Growth in the Middle East and North Africa* (Washington, DC: World Bank, 2009). *Firm entry density* is defined as the number of newly registered limited liability companies per 1,000 working-age people (ages 15–64).

2. Roberto Rocha, Subika Farazi, Rania Khouri and Douglas Pearce, "The Status of Bank Lending to SMEs in the Middle East and North Africa Region: The Results of a Joint Survey of the Union of Arab Banks and the World Bank" (World Bank, Washington, DC; and Union of Arab Banks, Beirut, 2010).

TABLE 1.4 Good practices around the world, by *Doing Business* topic

Topic	Practice	Economies[a]	Examples
Making it easy to start a business	Putting procedures online	106	Hong Kong SAR, China; FYR Macedonia; New Zealand; Peru; Singapore
	Having no minimum capital requirement	91	Kazakhstan; Kenya; Kosovo; Madagascar; Mexico; Mongolia; Morocco; Portugal; Rwanda; Serbia; United Arab Emirates; United Kingdom
	Having a one-stop shop	88	Bahrain; Burkina Faso; Georgia; Republic of Korea; Peru; Vietnam
Making it easy to deal with construction permits	Having comprehensive building rules	135	Croatia; Kenya; New Zealand; Republic of Yemen
	Using risk-based building approvals	86	Armenia; Germany; Mauritius; Singapore
	Having a one-stop shop	31	Bahrain; Chile; Hong Kong SAR, China; Rwanda
Making it easy to obtain an electricity connection	Streamlining approval processes (utility obtains excavation permit or right of way if required)	104[b]	Armenia; Austria; Benin; Cambodia; Czech Republic; Panama
	Providing transparent connection costs and processes	103	France; Germany; Ireland; Netherlands; Trinidad and Tobago
	Reducing the financial burden of security deposits for new connections	96	Argentina; Austria; Kyrgyz Republic; Latvia; Mozambique; Nepal
	Ensuring the safety of internal wiring by regulating the electrical profession rather than the connection process	40	Denmark; Germany; Iceland; Japan
Making it easy to register property	Using an electronic database for encumbrances	108	Jamaica; Sweden; United Kingdom
	Offering cadastre information online	50	Denmark; Lithuania; Malaysia
	Offering expedited procedures	16	Azerbaijan; Bulgaria; Georgia
	Setting fixed transfer fees	10	New Zealand; Russian Federation; Rwanda
Making it easy to get credit	Legal rights		
	Allowing out-of-court enforcement	122	Australia; India; Nepal; Peru; Russian Federation; Serbia; Sri Lanka
	Allowing a general description of collateral	92	Cambodia; Canada; Guatemala; Nigeria; Romania; Rwanda; Singapore
	Maintaining a unified registry	67	Bosnia and Herzegovina; Ghana; Honduras; Marshall Islands; Mexico; Montenegro; New Zealand
	Credit information		
	Distributing data on loans below 1% of income per capita	123	Brazil; Bulgaria; Germany; Kenya; Malaysia; Sri Lanka; Tunisia
	Distributing both positive and negative credit information	105	China; Croatia; India; Italy; Jordan; Panama; South Africa
	Distributing credit information from retailers, trade creditors or utilities as well as financial institutions	55	Fiji; Lithuania; Nicaragua; Rwanda; Saudi Arabia; Spain
Protecting investors	Allowing rescission of prejudicial related-party transactions[c]	73	Brazil; Mauritius; Rwanda; United States
	Regulating approval of related-party transactions	60	Albania; France; United Kingdom
	Requiring detailed disclosure	53	Hong Kong SAR, China; New Zealand; Singapore
	Allowing access to all corporate documents during the trial	46	Chile; Ireland; Israel
	Requiring external review of related-party transactions	43	Australia; Arab Republic of Egypt; Sweden
	Allowing access to all corporate documents *before* the trial	30	Japan; Sweden; Tajikistan
	Defining clear duties for directors	28	Colombia; Malaysia; Mexico; United States
Making it easy to pay taxes	Allowing self-assessment	156	Argentina; Canada; China; Rwanda; Sri Lanka; Turkey
	Allowing electronic filing and payment	74	Australia; Colombia; India; Lithuania; Malta; Mauritius; Tunisia
	Having one tax per tax base	48	FYR Macedonia; Namibia; Paraguay; United Kingdom
Making it easy to trade across borders[d]	Allowing electronic submission and processing	149[e]	Belize; Chile; Estonia; Pakistan; Turkey
	Using risk-based inspections	133	Morocco; Nigeria; Palau; Vietnam
	Providing a single window	71[f]	Colombia; Ghana; Republic of Korea; Singapore
Making it easy to enforce contracts	Making all judgments in commercial cases by first-instance courts publicly available in practice	121[g]	Chile; Iceland; Nigeria; Russian Federation; Uruguay
	Maintaining specialized commercial court, division or judge	82	Burkina Faso; France; Liberia; Poland; Sierra Leone; Singapore
	Allowing electronic filing of complaints	19	Brazil; Republic of Korea; Malaysia; Rwanda; Saudi Arabia
Making it easy to resolve insolvency	Allowing creditors' committees a say in insolvency proceeding decisions	109	Australia; Bulgaria; Philippines; United States; Uzbekistan
	Requiring professional or academic qualifications for insolvency administrators by law	107	Armenia; Belarus; Colombia; Namibia; Poland; United Kingdom
	Specifying time limits for the majority of insolvency procedures	94	Albania; Italy; Japan; Republic of Korea; Lesotho
	Providing a legal framework for out-of-court workouts	82	Argentina; Hong Kong SAR, China; Latvia; Philippines; Romania

a. Among 185 economies surveyed, unless otherwise specified.

b. Among 151 economies surveyed.

c. Rescission is the right of parties involved in a contract to return to a state identical to that before they entered into the agreement.

d. Among 181 economies surveyed.

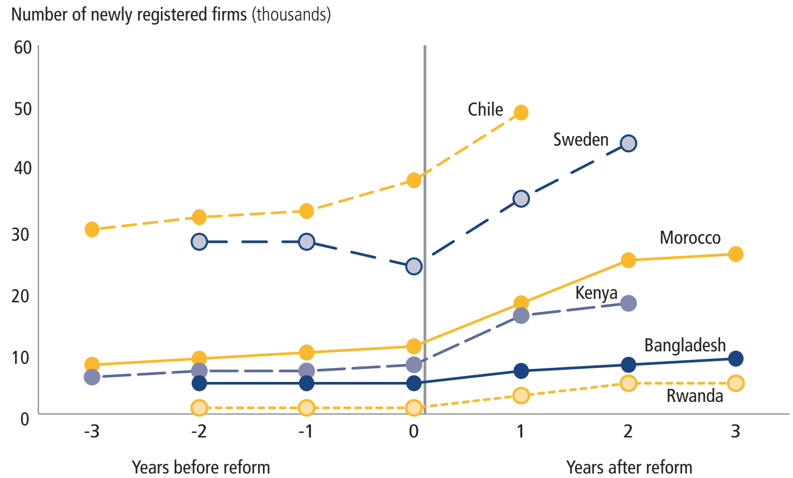
e. Thirty-one have a full electronic data interchange system, 118 a partial one.

f. Eighteen have a single-window system that links all relevant government agencies, 53 a system that does so partially.

g. Among 184 economies surveyed.

Source: Doing Business database; for starting a business, also World Bank (2009b).

FIGURE 1.9 More new firms are registered after reforms making it simpler to start a business



Note: All 6 economies implemented a reform making it easier to start a business as measured by *Doing Business*. The reform year varies by economy and is represented by the vertical line in the figure. For Bangladesh and Rwanda it is 2009; for Chile, 2011; for Kenya, 2007; for Morocco, 2006; and for Sweden, 2010.

Source: World Bank Group Entrepreneurship Snapshots, 2012 edition.

Yet another finding relates to the relationship between foreign direct investment and business regulation. A case study in this year's report shows that although the *Doing Business* indicators measure regulations applying to domestic firms, economies that do well in this area also provide an attractive regulatory environment for foreign firms. Again using multiple years of data, the case study shows that economies that are closer to the frontier in regulatory practice attract larger inflows of foreign direct investment.

WHAT'S NEW IN THIS YEAR'S REPORT?

This year's report, like last year's, presents country case studies. These feature Colombia, Latvia and Rwanda. In addition, the report presents a regional case study on Asia-Pacific Economic Cooperation (APEC), focusing on peer-to-peer learning. And for the first time the report presents thematic case studies, on foreign direct investment and on transparency in business regulation.

This year's report also reintroduces the topic chapters. But it presents them in a different format, as shorter "topic notes" that focus on the changes in the data from the previous year and over all years covered by *Doing Business*. The topic notes also discuss the most prominent reforms from the past year. Full information for each topic, including examples of good practices and relevant research, is available on the *Doing Business* website.[5] The website also presents the full list of good practices by topic summarized in table 1.4.

NOTES

1. To measure convergence, *Doing Business* calculated the change in the variance of distance to frontier across 174 economies since 2005 for each topic. The results suggest that the largest convergence has been in starting a business, with the variance decreasing by 49% since 2005. The topics with the next largest convergence are paying taxes (with a change in variance of −24%), dealing with construction permits (−23%), registering property (−19%), getting credit (−12%) and enforcing contracts (−4%). Several other topics show a small divergence: trading across borders (7%), protecting investors (2%) and resolving insolvency (1%). The overall change in the variance is −16%, suggesting an overall convergence in all *Doing Business* topics.
2. Eifert 2009.
3. The analysis, by Divanbeigi and Ramalho (2012), finds that narrowing the distance to frontier in the indicator sets measuring the complexity and cost of regulatory processes by 10 percentage points is associated with an increase of close to 1 percentage point in the GDP growth rate. Since the distance to frontier improves by 1 percentage point a year on average, these simulations are based on expected results for a 10-year period. Results are based on Arellano-Bond dynamic panel estimation to control for economic cycle and time-invariant country-specific factors. Following Eifert (2009) and Djankov, McLeish and Ramalho (2006), the analysis controls for government consumption, institutional quality and corruption perception. It also controls for total trade openness and rents from natural resources.
4. This research follows Klapper and Love (2011a). The analysis controls for government consumption, institutional quality and corruption perception. It also controls for total trade openness and rents from natural resources.
5. http://www.doingbusiness.org.