

# Ease of doing business

The ease of doing business index ranks economies from 1 to 181. For each economy the index is calculated as the ranking on the simple average of its percentile rankings on each of the 10 topics covered in *Doing Business 2009*. The ranking on each topic is the simple average of the percentile rankings on its component indicators (table 13.1).

If an economy has no laws or regulations covering a specific area—for example, bankruptcy—it receives a “no practice” mark. Similarly, an economy receives a “no practice” or “not possible” mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a “no practice” or “not possible” mark puts the economy at the bottom of the ranking on the relevant indicator.

Here is one example of how the ranking is constructed. In Iceland it takes 5 procedures, 5 days and 2.6% of annual income per capita in fees to open a business. The minimum capital required amounts to 13.6% of income per capita. On these 4 indicators Iceland ranks in the 9th, 3rd, 13th and 58th percentiles. So on average Iceland ranks in the 21st percentile on the ease of starting a business. It ranks in the 48th percentile on protecting investors, 26th percentile on trading across borders, 8th percentile on enforcing contracts, 8th percentile on closing a business and so on. Higher rankings indicate simpler regulation and stronger protection of

property rights. The simple average of Iceland's percentile rankings on all topics is 23%. When all economies are ordered by their average percentile rank, Iceland is in 11th place.

More complex aggregation methods—such as principal components and unobserved components—yield a nearly identical ranking.<sup>1</sup> The choice of aggregation method has little influence on the rankings because the 10 sets of indicators in *Doing Business* provide sufficiently broad coverage across topics. So *Doing Business* uses the simplest method.

The ease of doing business index is limited in scope. It does not account for an economy's proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders or construction permits), the security of property from theft and looting, macro-economic conditions or the strength of underlying institutions. There remains a large unfinished agenda for research into what regulation constitutes binding constraints, what package of reforms is most effective and how these issues are shaped by the context of an economy. The *Doing Business* indicators provide a new empirical data set that may improve understanding of these issues.

*Doing Business* also uses a simple method to calculate the top reformers.

First, it selects the economies that implemented reforms making it easier to do business in 3 or more of the 10 *Doing Business* topics. One reform is counted per topic. For example, if an economy merged several procedures by creating a unified property registry and separately reduced the property transfer tax, this counts as 1 reform for the purposes of attaining the 3 reforms required to be a candidate for top reformer. This year 33 economies met this criterion: Albania, Azerbaijan, Belarus, Bosnia and Herzegovina, Botswana, Bulgaria, Burkina Faso, China, Colombia, the Czech Republic, the Dominican Republic, Egypt, Georgia, Greece, the Kyrgyz Republic, Liberia, the former Yugoslav Republic of Macedonia, Madagascar, Mauritius, Morocco, Mozambique, New Zealand, Portugal, Rwanda, Saudi Arabia, Senegal, Sierra Leone, Slovenia, Thailand, Tunisia, Ukraine, Uruguay and Zambia (table 13.2).

Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year. For example, Albania, Burkina Faso and Rwanda each reformed in 4 aspects of business regulation. Albania's aggregate ranking on the ease of doing business improved from 135 to 86, Burkina Faso's from 164 to 148 and Rwanda's from 148 to 139. These changes represent an improve-

TABLE 13.1

## Which indicators make up the ranking?

<b>Starting a business</b>	<b>Protecting investors</b>
Procedures, time, cost and paid-in minimum capital to open a new business	Strength of investor protection index: extent of disclosure index, extent of director liability index and ease of shareholder suits index
<b>Dealing with construction permits</b>	<b>Paying taxes</b>
Procedures, time and cost to obtain construction permits, inspections and utility connections	Number of tax payments, time to prepare and file tax returns and to pay taxes, total taxes as a share of profit before all taxes borne
<b>Employing workers</b>	<b>Trading across borders</b>
Difficulty of hiring index, rigidity of hours index, difficulty of firing index, firing cost	Documents, time and cost to export and import
<b>Registering property</b>	<b>Enforcing contracts</b>
Procedures, time and cost to transfer commercial real estate	Procedures, time and cost to resolve a commercial dispute
<b>Getting credit</b>	<b>Closing a business</b>
Strength of legal rights index, depth of credit information index	Recovery rate in bankruptcy

ment in the ranking by 49 places, 16 places and 9 places, respectively. Albania therefore ranks ahead of Burkina Faso in the list of top 10 reformers. Rwanda does not make the list.

In summary, top reformers are economies that have implemented 3 or more reforms making it easier to do business and, as a result, improved their position in the ease of doing business more than other economies. The change in ranking is calculated by comparing this year's ranking with last year's back-calculated ranking. To ensure consistency over time, data sets for previous years are adjusted to reflect any changes in methodology, additions of new economies and revisions in data.

#### NOTE

1. See Djankov and others (2005).