

# Ease of doing business

The ease of doing business index ranks economies from 1 to 183. 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 2010*, i.e. exclusive of the electricity pilot data. The ranking on each topic is the simple average of the percentile rankings on its component indicators (table 15.1).

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” 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 3% of annual income per capita in fees to open a business. The minimum capital required amounts to 15.8% of income per capita. On these 4 indicators Iceland ranks in the 14th, 4th, 19th and 67th percentiles. So on average Iceland ranks in the 26th percentile on the ease of starting a business. It ranks in the 50th percentile on protecting investors, 38th 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 25%. When all economies are ordered by their average percentile rank, Iceland is in 14th 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 a economy’s proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders), the strength of the financial system, the security of property from theft and looting, macroeconomic 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 on 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 re-

formed in 3 or more of the 10 *Doing Business* topics. This year 38 economies met this criterion: Afghanistan, Albania, Algeria, Angola, Armenia, Bangladesh, Belarus, Burkina Faso, Cameroon, Colombia, the Czech Republic, Egypt, Ethiopia, Guatemala, Honduras, Hong Kong (China), Indonesia, the Islamic Republic of Iran, Jordan, Kazakhstan, the Kyrgyz Republic, Liberia, FYR Macedonia, Mali, Mauritius, Moldova, Montenegro, Peru, the Philippines, Poland, Portugal, Russia, Rwanda, Sierra Leone, Singapore, Tajikistan, the United Arab Emirates and the Republic of Yemen (table 15.2). Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year using comparable rankings.

1. See Djankov and others (2005).

TABLE 15.1

## 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 redundancy index, redundancy 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